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## Retaliation: Quandary for U.S.

### Military Strike Would Radically Change Posture in Gulf

By David B. Ottaway and Molly Moore  
Washington Post Service

WASHINGTON — The Iranian missile attack on a U.S.-flagged tanker inside Kuwaiti waters is forcing the Reagan administration to define with new precision its role and objectives in the Gulf.

Any decision to strike back against the presumed launching site of the Silkworm missile that hit the tanker, the Sea Isle City, on Friday would be likely to radically change the American posture in the Gulf.

It would mean any U.S. pretense of strict neutrality in the Iran-Iraq war, move the United States clearly to the side of Iraq, cross a new line in defense of the Arab Gulf states and open the door to escalation of hostilities between the United States and Iran that could be difficult to control.

Any perceived loss of neutrality, in turn, is likely to undermine the U.S. position at the United Nations, where it portrays itself as a broker in the search for an end to the conflict.

Domestically, a U.S. military attack would be bound to sharpen the Reagan administration's tough Arab Gulf states and about the credibility of American power.

This situation is far different from appearances in mid-July, when the U.S. naval escort of U.S.-flagged Kuwaiti tankers began.

Then, the administration seemed ready to strike back at any Iranian provocation. The Pentagon let it be known that a military response could come if Iran took even the first step toward firing at U.S.-escorted tanker convoys in the Strait of Hormuz by "locking on" the passing ships with Silkworm radars.

Now, Iran has not only "locked on" to a U.S.-flagged ship but has hit it with a missile warhead, seriously injuring the American captain.

The lack of an American response in the Gulf would seem certain to embolden Iran to continue attacks in the "gray area" where the administration has yet to clarify its rules of engagement, such as Kuwaiti territorial waters.

The presumed location of the Silkworm launching site is particularly significant. It is at the extreme southern tip of Iraq's Faw Peninsula, seized in 1986 and still held by Iran.

A U.S. strike there would aid Iraq militarily and protect Kuwait from further Iranian attacks, two roles the administration has carefully avoided playing so far in the conflict.

Unlike the five other Arab Gulf states that are partners of Kuwait in the Gulf Cooperation Council, the United States has no formal commitment to defend Kuwait and has refused to provide arms to Iraq or even train its military.

Now, however, Arab Gulf rulers and some key congressional leaders are pressing Washington to pass through these thresholds and become involved in what Representative Les Aspin, Democrat of Wisconsin, chairman of the House Armed Services Committee, calls a "policy of containment" of Iran's "revolutionary messianism."

Such a move would alter the nature of the Iran-Iraq war in the direction of a Gulf military special-interest, Anthony H. Cordesman, calls "a fundamental duel" between Iran and the United States.

"Neither side can easily afford to fail," he said in an interview.

Administration policy-makers, he said, are looking for an improvement in the situation.

## Reagan Won't Disclose Decision on Gulf Action

Compiled by Our Staff From Dispatches

WASHINGTON — Amid strong signs that military action was being considered, President Ronald Reagan said Sunday that he had decided how to respond to Friday's Iranian attack on a U.S.-flagged tanker in the Gulf, but he declined to say what the decision was.

Mr. Reagan, returning to the White House from Bethesda Naval Hospital in Maryland, where his wife, Nancy, is recuperating from breast cancer surgery, was asked if he had made a decision on his response to the attack, which Washington has blamed on Iran.

"I've made it," he told reporters. Asked what he had decided, he replied: "I can't tell you."

In Jeddah, Secretary of State George P. Shultz strongly hinted Sunday that a U.S. military response to the attack on the tanker, the Sea Isle City, could be forthcoming.

After a meeting with King Fahd of Saudi Arabia, Mr. Shultz said at a news conference that the United States was deliberating the missile attack, which occurred in Kuwaiti waters.

Mr. Shultz declined to speculate about what action the United States might take against Iran or when it might come. But he condemned Iran's "unacceptable behavior" and "open hostility toward the Gulf states," such as Kuwait and Saudi Arabia.

Mr. Reagan's chief of staff, Howard H. Baker Jr., said Sunday that the administration was consulting Congress "as we speak," but he declined to discuss the options under consideration.

Mr. Baker noted that no one had been killed in the attack on the Sea Isle City. Eighteen crewmen were injured.

He also said the attack appeared to have been directed more at Kuwait than at the United States.

Defense Secretary Caspar W. Weinberger was asked in a television interview if he was certain that Iran had been responsible for the attack.

"It was an act of the Iranian government," he replied. "Very few people have their own private Silkworms."

Iran has neither confirmed nor denied that its forces fired the missile.

Iran has been blamed for two missile attacks against ships off the Kuwaiti port of Shuaiba.

On Thursday, a missile hit a supertanker owned by a U.S. company but registered in Liberia.

The attack Friday was on one of the Sea GULF, Page 6

## U.S. Wants Arms Tests Despite Pact

By William J. Broad  
New York Times Service

NEW YORK — The United States remains deeply committed to the explosive testing of nuclear weapons despite its recent agreement with the Soviet Union to negotiate an eventual total ban on nuclear blasts, government scientists and officials say.

Other scientists, as well as arms control experts favoring a test ban, say the policy calls into question the Reagan administration's sincerity in the negotiations, which are scheduled to start before Dec. 1.

Federal officials disagree, saying a test ban is a worthy goal that might be achieved in the 21st century.

But they also insist that testing will be needed as far into the future as they can now see, to gauge the reliability of aging nuclear weapons, to fashion new warheads and to create exotic new arms for President Ronald Reagan's plan for a defense against attacking missiles.

At least three types of such devices for the Strategic Defense Initiative have advanced to the point of explosive testing at the government's nuclear test site in Nevada.

Underlining the strong desire of many officials to continue testing, a senior official of the Energy Department, which designs and produces the nation's nuclear warheads, said in congressional testimony recently that the development and testing of advanced anti-missile weapons offered the West a chance to gain superiority over the Soviet Union in an important new phase of military technology.

Critics, however, say that nuclear reliability can be assured without testing and that the search for superiority is futile at best and dangerous in its potential to undermine nuclear stability.

Experts on both sides agree that a test ban would halt nuclear advances. They say the perfection of a new weapon requires a complex process of design, testing and redesign. The number of tests needed can range from three or four to a hundred or more, depending on the complexity of the device. So far this year, the United States has announced a dozen nuclear tests at its underground site in Nevada.

"The official government position is that a complete test ban will occur only when there is no longer a need to rely on nuclear weapons for deterrence," said Bernard Halperin of the Arms Control and Disarmament Agency.

Nevertheless, the United States See TEST, Page 6

## Kiosk Swiss Coalition Retains Majority

BERN (AP) — Switzerland elected a new parliament Sunday with early returns indicating that the four-party government coalition will easily retain its comfortable majority as the environmentalist Greens made less headway than expected.

Projections based on incomplete results from all 23 cantons suggested no major change in the makeup of the 200-member National Council, the lower house.

## Karl Lagerfeld's halo effect, part of his idea-filled ready-to-wear show in Paris, Page 5.

## GENERAL NEWS

■ The Indian Army sent 2,000 more troops into the battle for the city of Jaffa. Page 2.

SPORTS

■ Atlanta beat Los Angeles, 24-20, on the final day of NFL replacement games. Page 17.

BUSINESS/FINANCE

■ A French firm reportedly sent U.S. machinery improperly to the Soviet Union. Page 11.

Special Today

French banking, set on European leadership, faces a rough ride. Special Report, Pages 7-9.



Iranian Revolutionary Guards demonstrating as four wounded colleagues and the bodies of two others were being returned to Iran. The six were victims of a clash between U.S. and Iranian forces in the Gulf on Oct. 8, in which three of Iran's boats were knocked out.

## Message From the Markets: Money Talks

By Carl Gewirtz  
International Herald Tribune

PARIS — Money talks. And last week it was striking. The message: If governments are unable to reduce the U.S. trade deficit, the markets will.

Financial markets everywhere are in a paroxysm of disquiet. Last Wednesday's report that the U.S. merchandise trade deficit in August was \$15.68 billion. Although this was less than in July and represented the first narrowing in five months, it was not nearly enough of an improvement to be convincing.

Surprisingly, there was relatively little reaction in the foreign exchange market. However, many experts anticipate that will change this week.

The dollar has been held in a relatively narrow range since February's agreement among the leading industrial nations to stabilize currency values. The fact that central banks have spent an estimated \$90 billion in market intervention this year to maintain stability has temporarily left speculators in no mood to challenge that commitment.

Instead, investors have been dumping bonds — sending yields soaring — in the belief that regardless of what happens in the foreign exchange market, U.S. interest rates must rise.

The bellwether 30-year U.S. Treasury bond hit a yield of 10.36 percent last week, up a huge 43 basis points — or almost half a percentage point — from the previous week. Historically, bond markets have registered big moves in quarter-point increments.

By late Friday, however, the yield on the 30-year bond was cut to 10.17 percent — a weekly gain of 20 basis points — as money seeking the safety of U.S. Treasury securities poured into the market.

The bond rally was not very convincing. "Intermittent rallies will occur, as some institutional investors may begin to shift some investments from equities to bonds," said Henry Kaufman, chief economist at Salomon Brothers Inc. "But such shifts will not forestall the market trend for long, and will, in any case, only be moderate until the market's fears of mounting inflation and accelerating growth are allayed."

In any event, by the end of the week, long-term U.S. interest rates were up 1.4 percentage points from mid-August and 3 points above the low set in 1986.

The threat of a recession provoked by higher interest rates created havoc in the stock market, where prices as measured by the Dow Jones industrial average lost almost 10 percent last week.

Stephen Morris, an economist at the Washington-based Institute for International Economics, said that the new chairman of the Federal Reserve Board, Alan Greenspan, inadvertently contributed to shaking confidence in the stock market.

Mr. Greenspan publicly stated that fears about a new surge in inflation are exaggerated — a view markets clearly dispute. But more devastating, according to Mr. Morris, was the Fed's response to Thursday's sharp 57.61-point decline in the Dow Jones average by injecting a huge amount of liquidity into the money market. That was taken as a signal of weakness in the Fed's resolve to keep inflation restrained and on Friday the Dow average tumbled a further 108.35 points.

The combined rout in financial markets sent a shiver of fear throughout the investment community that the markets may be about to plunge out of control in the absence of a coherent official policy to correct the fundamental problem.

"What we're witnessing," said Rimmer de Vries, economist at Morgan Guaranty Trust in New York, "is markets imposing an adjustment on the trade deficit because politicians are not able to."

Falling bond prices send stock prices reeling and the two declines, ultimately, are likely to provoke a sustained attack on the U.S. currency, as foreign investors dump their dollar assets. There is considerable doubt that the Bank of Japan will stand by.

See MARKETS, Page 13

## Nancy Reagan's Mastectomy Is Criticized

By Gina Kolata  
New York Times Service

WASHINGTON — Nancy Reagan and her doctors chose to remove her entire left breast despite a variety of recent findings that less extreme surgery is as effective for small breast tumors such as hers.

Experts said there is convincing evidence that, for such small non-invasive cancers, a modified radical mastectomy, in which the breast and one of the chest muscles are removed, gives no better chances of survival than simply removing the lesion, with or without radiation therapy. The first large study to establish this was published in 1985 and other studies have since confirmed the finding.

Mrs. Reagan's decision "set us back 10 years," said Rose Kushner, executive director of the Breast Cancer Advisory Center in Kensington, Maryland, a group that counsels women with breast cancer and lobbies for increased federal support for diagnosis and treatment. "I'm not recommending that anyone do it her way."

One out of 11 women will develop breast cancer, the second leading cause of death for women. Although Mrs. Reagan's decision was a private matter, her choice has caused some concern among breast cancer specialists and others who think her decision may influence other women.

Neither Mrs. Reagan, 66, nor her doctors offered a public explanation for her decision to have a mastectomy, according to a White House spokesman. But Elaine Crispin, her press secretary, said Mrs. Reagan elected to undergo the more extensive procedure because "it was the most positive way to get it all over with."

There are several reasons why a woman might choose mastectomy even for a small tumor. For example, some women treated with a lumpectomy, the removal of the tumor and some nearby tissue, are also given radiation treatments. Although there are seldom any serious side effects associated with radiation treatment for breast cancer, doctors say there is a widespread fear of possible side effects, such as loss of hair, involved in more intensive forms of radiation therapy.

Also, for women with small breasts, removal of a lump and nearby tissue might be almost as disfiguring as removal of the breast itself.

Doctors described Mrs. Reagan's tumor as "noninvasive" in that it had not spread past the milk duct, where it formed, into other tissue.

Cancer specialists also expressed concern because Mrs. Reagan had her mastectomy immediately after a biopsy confirmed the malignancy. "Most who are really knowledgeable would view this as wrong," said one specialist who asked not to be identified. He said doctors cannot be certain from a quick look at slices of frozen cells that the tumor had not spread in the breast.

To be certain, pathologists must carefully examine all the tumor tissue, including cells at the edges of the tumor, a process that takes several days. And, experts said, if the tumor is invasive, having spread beyond the milk duct, pathologists could perform a number of other diagnostic tests to determine how fast it is growing and whether it would respond to hormonal therapy.

Mrs. Kushner said she was concerned that other women would also select modified radical mastectomies because Mrs. Reagan did so. "Women will hear that this is what was recommended for the president's wife and will say, 'This is what I want,'" she said.

See PUMPKINS, Page 6

## Rising Out of the Patch, the Heavyweight Pumpkins

International Herald Tribune

LONDON — The annual giant pumpkin contest was held last week on a basketball court in Ashby-de-la-Zouch, and the winning entry, from Canada, weighed only 408 pounds while Japan, competing for the first time, came in second with 327 pounds.

The United States was third with 313.7 pounds, small potatoes indeed after the world record last year by a New Jersey farmer, Robert Gancarz, whose pumpkin weighed 671 pounds, or 305 kilograms. It had a circumference of 12 feet 11 inches (3.9 meters), and 12 men were required to move it from the forklift to the scale.

There is no point in pretending that this year's contest had last year's thrills. Unwins the seed manufacturer that sponsors the British competition with Garden News magazine, referred in a press release to the shocking growing conditions this summer, and Pam Deschamps of Garden News warned that although competing pumpkins might swell because of plentiful rain, lack of sun could fatally cause them to split.

The happiest British contestant was Linda Withers, 29, from Lincolnshire with a 248.2-pounder that won her a cash prize of £200 and a trip for two, plus pumpkin, to San Francisco, where they will celebrate Halloween together.

For generations in the north of England, door types in flat caps have grown giant leeks and other subterranean vegetables, feeding them with revolting brews of dried blood and flat lager, competing fiercely, indulging in occasional sabotage of rival entries and in general living out the Due de Sully's view that the English take their pleasures sadly.

It has become an autumn rite throughout the country to see such headlines as "The Pumpkin Beater" or "Gourd Almighty" and to read about a 107-inch-long carrot, a 17-pound radish and, in The Times, "Teapot Size Onion Sets Record." (According to The Times's agricultural correspondent, the onion was "a monstrous bulb grown in the garden of a Scottish council house," and it weighed 6 pounds 7 1/4 ounces.)

At the same season, the classy Royal Horticultural Society holds its Autumn Fruit and Vegetable Competition and the Late Apple and Pear Competition in which excessive size is not only discouraged but also is penalized, and there are classes "open only to those Amateurs who do not employ a gardener more than one day a week."

Pumpkin growing, now in its pre-Halloween paroxysm, is the most exhibitionistic of all fruit and vegetable competitions, perhaps because it is not native to Britain. The first giant-pumpkin grower is said to have been William Warneck of Goodrich, Ontario, who sent a 400-pounder to the 1900 Paris International Exposition.

The most colorful figure on the pumpkin circuit today is Stephen Liddard, 42, a brightly tattooed demolition entrepreneur who lives in Hertfordshire with his mum and who got into pumpkins in 1985 when he read that the prize for growing a world-beater was a cool £12,000.

"To be honest, I'm only in it for the money," Stephen said over a dish of trifle. His mum also makes an excellent bread pudding. "I thought they can be growing while I'm working, and I'll just come home and give them a drop of water and I'll be 12 grand richer."

"But I was a bit over-optimistic," he said. The pumpkin he grew for the contest last year weighed a puny 50 pounds.

But what made his pumpkin interesting was that it was the first in the competition to be grown hydroponically, without soil, and fed by liquid nutrients. Hydroponics is the coming thing in agriculture, but no one had thought of applying it to giant pumpkins.

See PUMPKINS, Page 6

## Baker Minimizes Fall in Shares; 'Steadying' Seen

By Fred Farris  
International Herald Tribune

WASHINGTON — The U.S. Treasury secretary, James A. Baker 3d, on Sunday minimized last week's record plunge in U.S. shares, while a leading Wall Street analyst said he expected "some steadying" of the stock market.

The Treasury secretary also repeated hints made earlier last week that the U.S. administration would let the dollar fall in reaction to recent increases in interest rates in West Germany and Japan.

Mr. Baker agreed with the analysis, Henry Kaufman, chief economist of Salomon Brothers Inc., that U.S. economic fundamentals "are in pretty good shape." However, Mr. Baker declined to predict what the Wall Street markets would do following Friday's 108.35-point fall in the Dow Jones industrial average, to 2,246.74.

The slump was a record in point terms, but the fall of 4.6 percent was far below the 12.9 percent plunge on Oct. 28, 1929, the day of the historic Wall Street crash.

Triggered by disappointing U.S. trade figures for August and the resulting rise in interest rates, the Dow index dropped 135.48 points last week, or 9.5 percent, the largest weekly loss since World War II.

Mr. Baker, appearing with Mr. Kaufman on a U.S. television interview program, said the market had undergone "a very, very major correction" but noted that the market had stood at a "very, very high level" before it began to decline.

"For many months," said Mr. Baker, "people had predicted that the stock market could not continue to go up... it nevertheless did. What we've seen is a major, major correction, but we've seen it from a very high level, and we're back now at the level we were at recently as May 21 of this year."

Mr. Kaufman said: "I would suspect after such a sharp decline that we've been in the past week, investors will begin to reassess what has happened. In a reference to the health of American businesses, he said that the "profit rebound is going to be quite strong."

The influential economist also said that he doubted that the Federal Reserve Board, the U.S. central bank, would move within the next four weeks or so to raise its discount rate, the trend-setting rate it charges financial institutions.

With a stable monetary policy, he said, "I would expect some steadying in the market after this very significant move that we've had on both interest rates and the equity markets."

"We tend to forget," Mr. Kaufman said, "that when prices go up we don't consider that as volatility; it's only when prices go down. We've had a very significant increase in stock prices since the start of this year, indeed since 1982."

Mr. Baker hinted about a lower dollar when asked about a New See STOCKS, Page 13

## Monday Q&A



Robert R. Prechter, a noted Wall Street forecaster, still is bullish about stocks. Page 13.



## Spaniard Wins at UNESCO, Ending the Reign of M'Bow

By Barry James

PARIS — After an acrimonious all-night conclave, Federico Mayor Zaragoza, a Spanish biochemist, was nominated Sunday as director-general of the United Nations Educational, Scientific and Cultural Organization, ending the 13-year reign of Amadou Mahtar M'Bow.

Mr. M'Bow, a 66-year-old Senegalese, said Western countries had blackmailed him into abandoning his quest for a third term.

The United States, which withdrew from UNESCO in 1984 in protest over what it said was Mr. M'Bow's mismanagement and the organization's anti-Western bias, said Sunday that it had no immediate plans to rejoin.

"We have no reason to reconsider," said the State Department spokesman, Charles E. Redman.

Britain, which withdrew from UNESCO at the end of 1985, made

no official comment, but it has also indicated that it will not consider rejoining the organization until it has been fundamentally changed.

But Mr. Mayor's nomination forestalled the withdrawal of several other Western nations that had threatened to leave in the event of Mr. M'Bow's re-election.

Mr. Mayor, 53, received 30 votes from UNESCO's 50-member executive board, including the four controlled by the Soviet Union, formerly one of Mr. M'Bow's staunchest supporters.

Mr. M'Bow left the five-round election with as much support as he entered it nearly two weeks ago.

His African, Arab and other Third World backers voted against Mr. Mayor. "They are very bitter and extremely offended by threats by Western members to pull out," said a European member of the executive board.

The executive board's nomination now has to be approved by

UNESCO's general conference on Nov. 7, and diplomats said there remained a possibility that Mr. Mayor could be dropped in favor of a candidate better placed to heal the North-South breach in the organization.

Mr. M'Bow, who was officially backed by the Organization for African Unity, told the board by letter that he no longer wanted to be a candidate. He said nations opposing him "had not hesitated to resort to blackmail and disinformation as well as pressures and threats of all sorts."

He said those nations "have perverted and corrupted the democratic process of the election" by threatening to withdraw or not make their financial contributions if he were nominated.

Mr. M'Bow led the first four rounds of voting, but could not obtain the necessary majority of 26. The fifth vote was a runoff between the two leading candidates.

The crucial element in Mr. Mayor's victory was the Soviet Union's decision to support the Spaniard. In the first four rounds, Moscow voted for Nikolai Todorov, a Bulgarian historian.

The Russians appear to have abandoned Mr. M'Bow in an effort to save UNESCO. The withdrawal of the United States and Britain cost the organization one-third of its budget, which is down to \$145 million annually, and the departure of other countries would have been deeply damaging to its finances and its universality.

The Soviet decision came amid a general recasting of Moscow's UN policies. Last week, the Russians announced they would pay overdue UN bills, including \$197 million for peacekeeping operations they have long opposed.

Mikhail S. Gorbachev, the Soviet leader, has spoken of invigorating the UN Security Council and World Court, of using peacekeeping forces in regional conflicts and of setting up a UN tribunal on terrorism.

Because of congressional opposition, the United States owes \$414 million in UN dues, including \$61 million for peacekeeping units.

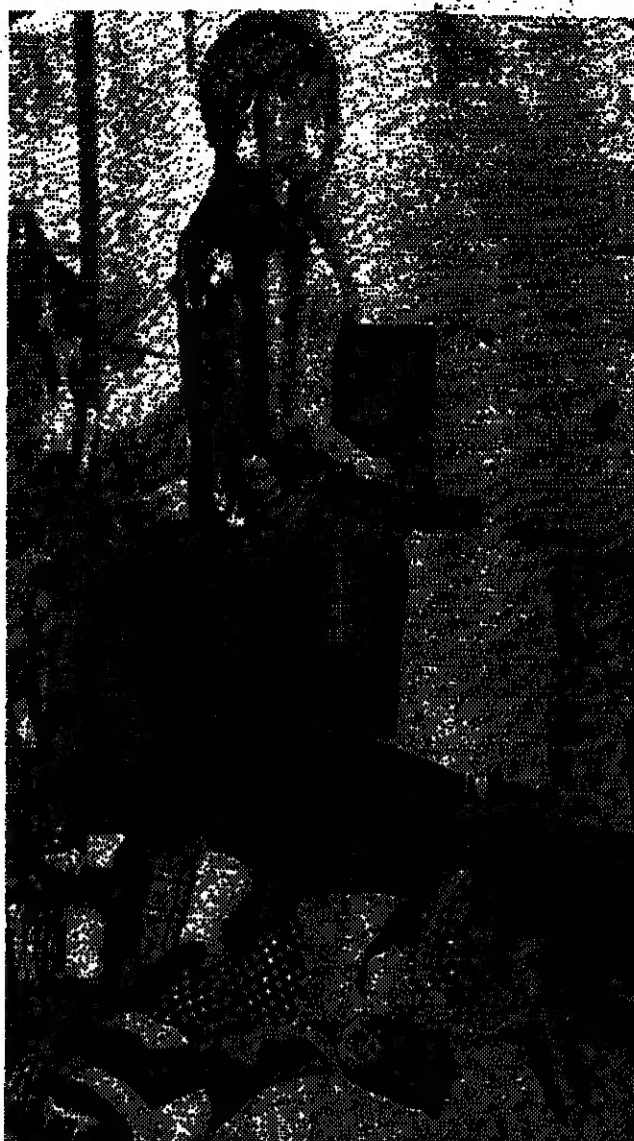
Last week, Laura Gersono, the State Department official in charge of relations with international organizations, said it was impossible to say whether there would be any money for the United States to rejoin UNESCO at some time in the future. She said Washington would consider rejoining only when it saw evidence of fundamental change, including a measure to give major donors greater weight in how the budget is spent and the depoliticization of UNESCO programs.

In leaving UNESCO, the United States and Britain complained about what they said was automatic Communist and Third World bias against the West. "We never said that M'Bow specifically was the problem," said Mr. Redman, the State Department spokesman.

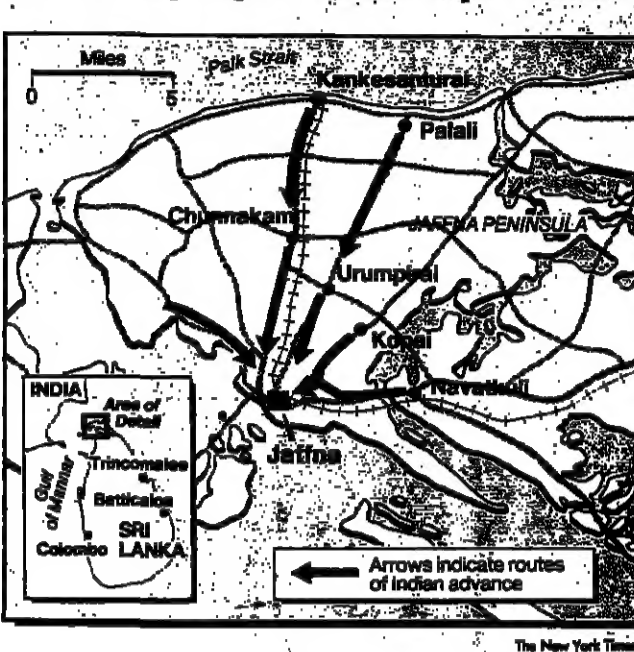
Nevertheless, Mr. M'Bow, the first African to head a major UN organization, attracted criticism over accusations of mismanagement, wastefulness, nepotism and favoritism.

For some delegates who supported Mr. Mayor, his strongest attribute was that he was not Mr. M'Bow. He was earlier a deputy director-general of UNESCO and personal adviser to Mr. M'Bow as well as education minister of Senegal for a brief period.

Mr. Mayor said he did not represent any political grouping. "I am an independent and a professional," he said. In a bid to reassure the countries that supported Mr. M'Bow, he said, "My first concern is with development, particularly in Africa."



A Sri Lankan mother and her child who fled fighting near Jaffna, seeking refuge at a Buddhist temple in Colombo.



## Afghan Leader Tightens Grip By Ousting Karmal Backers

ISLAMABAD, Pakistan — The Afghan leader, Major General Najib, has tightened his grip on the ruling People's Democratic Party by purging supporters of his predecessor, Babrak Karmal, who was removed last year.

The Kabul radio said 15 leading associates of Mr. Karmal, including a half-brother, Mohammed Baryalai, lost their posts in the party Central Committee on Saturday. Western diplomats in Islamabad said the purge seemed intended to allow a further relaxation of communist-style policies pursued under Mr. Karmal and to make the party more broadly acceptable.

The announcement Saturday was in line with General Najib's drive to end the nine-year-old guerrilla war by wooing rebels into a

## India Sends More Troops To Northern Sri Lanka

By Barbara Crossette

COLOMBO, Sri Lanka — India said Sunday that it was reinforcing its forces fighting Tamil guerrillas in the Jaffna Peninsula by 2,000 troops.

The reinforcements would raise to 8,000 the official number of Indians battling 2,000 Tamil separatists who have been holding off the Indian Army in house-to-house fighting for more than a week.

Indian troops have captured the headquarters of Sri Lanka's main Tamil rebel faction outside the city of Jaffna, the state-owned All India Radio said Sunday as reported by Reuters in New Delhi.

[The report said a large quantity of arms and ammunition had been seized at the headquarters of the Liberation Tigers of Tamil Eelam, which is at Kopei on the outskirts of Jaffna. It gave no further details.]

Officially, India says it has 14,000 troops in Sri Lanka's north and east, but unofficial estimates in Colombo and New Delhi put the figure at 20,000 to 25,000. While the Indian units are dispersed with large contingents in the eastern ports of Trincomalee and Batticaloa, the majority of the guerrilla forces are thought to be in Jaffna.

A spokeswoman for the Indian High Commission in Colombo said that the reinforcements were arriving as Indian troops face intense combat around the city of Jaffna, controlled by the guerrillas. The Indians have been fighting their way into the city for nine days.

More than 100 Indians and at least 525 guerrillas are reported by the Indians to have died, with hundreds wounded on both sides.

The Indians, who are in Sri Lanka to disarm the guerrillas under terms of an agreement signed by India and Sri Lanka in July, are being attacked from behind by advancing lines, the spokeswoman said Sunday.

The guerrillas are also "increasingly using civilians as shields," the spokeswoman said. She said that columns of civilians, including women and children, were blocking the movement of armed personnel carriers.

The simplest thing would be to raise the whole place up in the air," she said. But India has decided not to use heavy artillery and air power, and so the Indians were "fighting with one hand tied behind their back."

Asked how much of the Jaffna Peninsula was firmly in Indian control, the spokeswoman replied: "In guerrilla situations it is very difficult to say what has been pacified."

Refugees are reported to have been streaming out of the peninsula to northern Sri Lankan towns of Mannar, Kilinochchi and Mullaitivu. They continue to bring accounts of high civilian casualties.

A woman who recently reached Colombo said she had heard that more than 500 noncombatants were dead. Refugees say hospitals were destroyed by tanks.

The Indians will not estimate the civilian casualty toll, and independent investigations are not possible. Reports have been barred from traveling to Jaffna.

A team of 32 Indian Red Cross officials are in Jaffna to study how to distribute food to the remaining population, the Indian spokeswoman said. She also said that ships with food and other supplies would be arriving from the Indian city of Madras on Monday.

## WORLD BRIEFS

### Armenian Protest Is Reported Foiled

MOSCOW (AP) — The police in the Armenian capital of Yerevan broke up a protest by at least 1,000 people on Sunday, the second day of public demonstrations in the small Soviet republic bordering Turkey.

Sunday's demonstration was in support of Armenian national rights in the village of Chardakhin in Soviet Azerbaijan, said a dissident, Valery Senderov, who learned of the protest from sources in Yerevan.

On Saturday, at least 3,000 people marched in Yerevan to demand the closing of a polluting chemical plant and a nuclear power station, according to other sources in Moscow.

### Manila Reports Foiling a Coup Plot

MANILA (AP) — Officials said they foiled a coup plot on Sunday after mutineers stole an armored personnel carrier from army headquarters but abandoned it near President Corason C. Aquino's residence.

Pro-government troops and tanks were deployed around the presidential palace, but there were no reports of other incidents. It appeared the theft of the personnel carrier might have been a ploy by the rebels to test security and embarrass loyal military commanders.

More than 20 foreign and Philippine reporters had assembled at the campus of Santo Tomas University after receiving a tip that they might be taken to a press conference by mutinous officers. Instead, they watched as the personnel carrier drove around the campus before the six-man crew abandoned it. Inside the vehicle, loyal troops found a banner of the mutineer "Guardians" faction.

### U.K. Weather Office Orders Probe

LONDON (Reuters) — The Meteorological Office has ordered an inquiry into whether it should have given an earlier warning of Britain's worst storm in 300 years, which killed at least 13 persons.

The Meteorological Office warned of how intense the storm would be just a few hours before hurricane-force winds began whipping across southern England early Friday, causing millions of dollars' worth of damage. The storm also caused at least six deaths and widespread damage in northern France, Spain and Portugal.

"We will go back to the data available at the time to see whether we could have predicted it," a spokesman for the Meteorological Office said. "Preliminary results indicate that it happened so quickly that we did the best we could in the circumstances." He declined to comment on reports in British newspapers that forecasters in France and the Netherlands were able to issue earlier storm warnings based largely on the same information available to British meteorologists.

### Ozal Wins Fight for Early Election

ANKARA (Reuters) — Prime Minister Turgut Ozal has won a crucial parliamentary struggle for an early general election, but the vote failed to end Turkey's worst political crisis since 1980.

"We have just saved the country from the brink of turmoil," Mr. Ozal told his conservative Motherland Party when the law for a Nov. 22 poll was passed Saturday after a mass opposition walkout. Only 20 of the 450 opposition members of the 400-seat parliament were present for the show of hands after a bitter debate that undermined the deep political divisions that have haunted Turkish politics for nearly three decades.

The new election law must be ratified by President Kenan Evren, who as the army chief led Turkey's third military coup in 20 years to end political chaos in 1980. Political sources said Mr. Ozal was still widely expected to win the election. The prime minister had accused opposition parties of seeking a delay in the voting until next year because they were lagging badly in public opinion polls.

### 16 to Die for Sierra Leone Coup Plot

FREETOWN, Sierra Leone (Reuters) — Sixteen persons, including former Vice President Francis Mischek Minah, have been sentenced to death for plotting in March to overthrow the president, Major General Joseph Saidu Momoh.

Four of those sentenced Saturday were found guilty of the murder of a paramilitary forces driver killed in uprising. Those convicted have 21 days to appeal, court sources said.

For the Record

To allay fears about the safety of Soviet reactors after the Chernobyl nuclear accident, the Soviet Union has invited an international team to inspect safety arrangements at a civilian nuclear power plant, officials at the United Nations in New York said. The invitation was made last month to the International Atomic Energy Agency in Vienna. (NYT)

The three major West German political parties called Saturday for new elections in the northern state of Schleswig-Holstein following the death of the state premier governor, Uwe Barschke. (AP)

## TRAVEL UPDATE

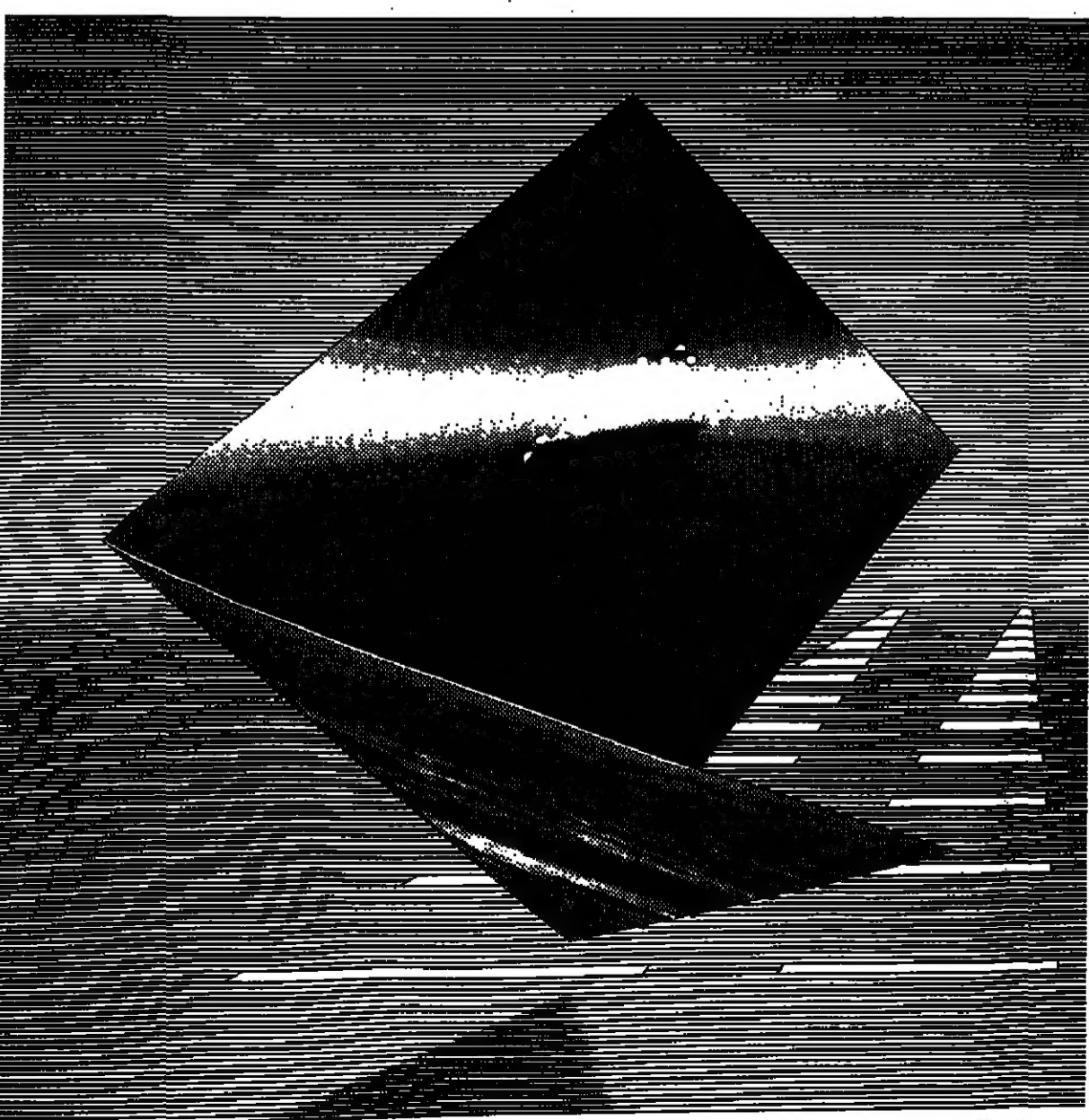
### China to Buy Soviet Passenger Planes

BEIJING (AP) — Chinese national airlines will add 10 Soviet Tupolev-154m passenger planes to their fleet next year, the official China Daily newspaper said Sunday.

The newspaper said the General Administration of Civil Aviation of China is to pay about 520 million yuan (\$86 million) for the planes, which hold 164 passengers. China's five airlines, which flew 10 million passengers last year, also use Boeing, McDonnell Douglas and Airbus planes.

### Correction

An article in the Saturday-Sunday editions of the International Herald Tribune incorrectly reported the position of Gisèle Halimi, the former French representative to the executive board of UNESCO. She resigned to protest her government's decision to support Foreign Minister Salah-zadeh Yaqub Khan of Pakistan for director-general of the organization.



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## AMERICAN TOPICS

## Flowered Borders

## For U.S. Highways

Native wildflowers are to be sown along federal-aid highways throughout the United States. Texas has been doing it for 50 years, and Lady Bird Johnson, a Texan, made the practice popular during the presidency of her husband, Lyndon B. Johnson. Senator Lloyd Bentsen of Texas guided a bill through Congress requiring that 25 cents of every \$100 in federal highway funds be used to plant native wildflowers.

Mr. Bentsen says that when wildflowers are growing along the roadside, "you don't have to mow once a week." He said that instead "you mow one or two times a season," and "you also find that people don't throw as much litter."

All but four states — Hawaii, Montana, Nevada and Utah — have some form of native-growth program. The federal measure will reinforce this. A waiver can be obtained if a state certifies that native wildflowers cannot be grown satisfactorily, that there is a scarcity of planting areas or that they are to be used for farming.

## Short Takes

Documents discovered during a \$1.7 million restoration of Abraham Lincoln's home in Springfield, Illinois, apparently date from his days as a congressman in the 1840s, according to Francis Krupka, historical architect on the project. The documents, found in a kitchen wall, included part of an envelope addressed and signed by Lincoln, four letters to Lincoln and a printed anti-slavery speech. They will go on display at the residence. "It's not all that often," said Mr. Krupka, "that original Lincoln documents pop up out of the woodwork, literally."

Rubella, or German measles, reached an all-time low of 551 cases in the United States last year, down 99 percent from the advent of the rubella vaccine in 1969, according to federal figures. Health officials say eradication of the disease is possible. In children, rubella is usually mild, causing fever and rash. But when pregnant women catch the disease it can cause miscarriages and severe birth defects.

Sales clerks at the L.I. Bean retail and mail-order outdoor and sporting goods store in Freeport, Maine, take regular business trips to mountains, woods and streams. "For salespeople to talk intelligently about Bean merchandise, they should be using it and experiencing the outdoors," said Ed Babino, who runs the outings. "So we get them out there."

For five years in a row more than 90 percent of armed forces recruits have been high school graduates, the Pentagon says. The services' ability to pick a higher caliber of recruit coincides with a steady decline in unemployment, contradicting the theory that unemployment causes young people to enlist.

When Richard Lindner got married on a local television show in Fort Lauderdale, Florida, he did not think that his wife would be in the viewing audience. He has been charged with bigamy.

## Notes About People

Twenty-five years ago Michael

Harrington's "The Other America" made his compatriots more aware of the poor. It was a subject that Mr. Harrington, who "didn't have a nickel to my name" and was "sleeping with bedbugs," knew well. The New York Times notes that President John F. Kennedy's advocacy made the book required reading in federal offices. Historians say that more than any other work it inspired landmark anti-poverty measures, like Medicare and Medicaid. Today, Mr. Harrington, 59, still active in the cause of poor people, is a prosperous lecturer and writer. "I really love clean sheets, good food and good wine," said Mr. Harrington. "Anyone who doesn't is a nut."

Representative James H. Scherer, Democrat of New York, said as the House Subcommittee on Aviation opened hearings on laws to prohibit smoking on all airline flights: "The proper question to his neighbor when a person lights up on an aircraft is not, 'Do you mind if I smoke?' but 'Do you mind if we smoke?'"

Senator Daniel Patrick Moynihan says he is tired of heavily

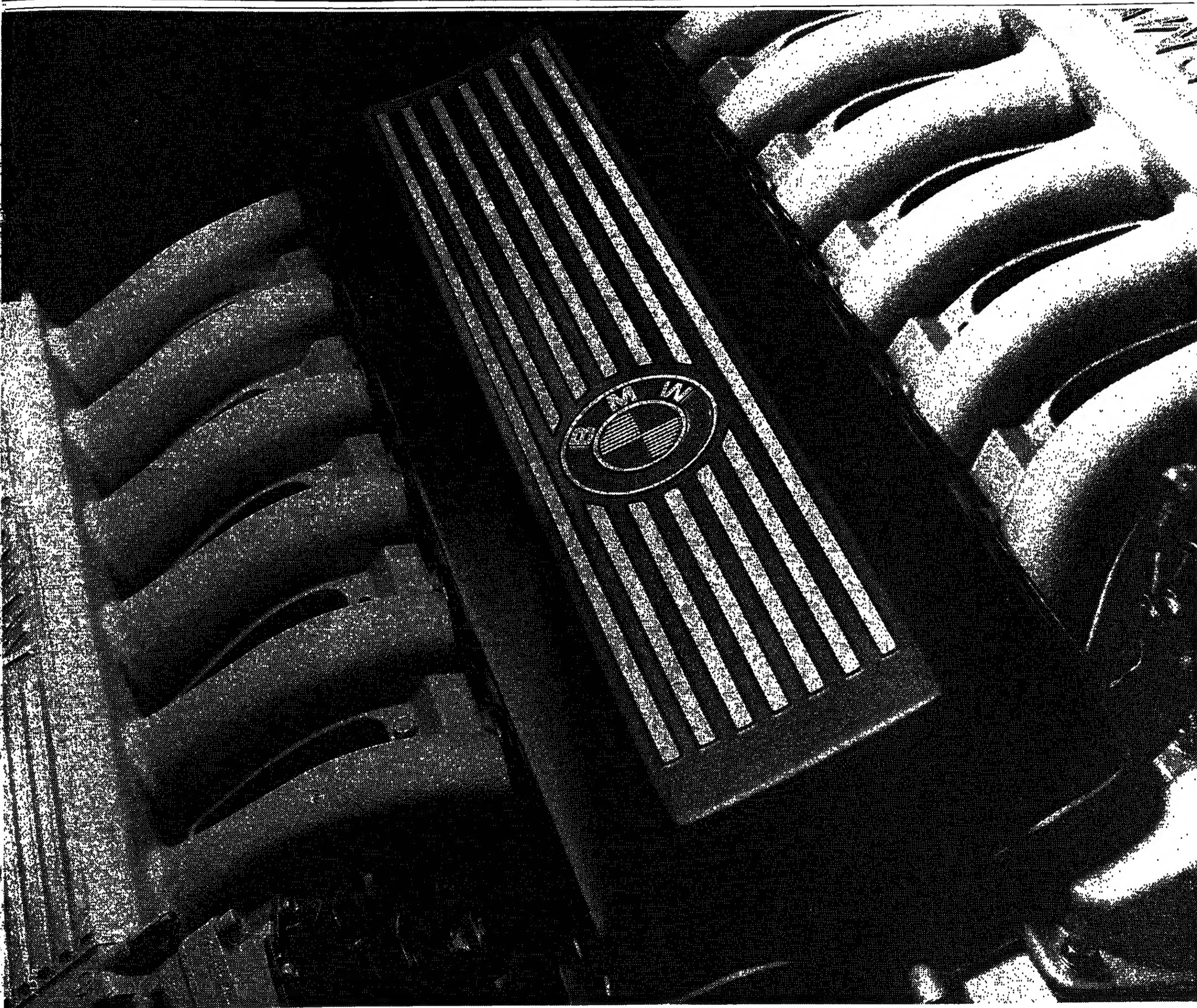
armed motorcades of limousines and police outriders speeding and screaming through Washington and he is sure other people are too. So the New York Democrat introduced a resolution in the Senate urging the State Department to restrict foreign dignitaries visiting Capitol Hill to two-car entourages. The Senate approved the measure by voice vote but the State Department is trying to block it in the House of Representatives. Mr. Moynihan said Congress is "the representative body of a democratic state and not some besieged citadel of a fearful tyranny."

Jessica McClure, an 18-month-old girl who fell down an abandoned well shaft in Midland, Texas, was rescued Friday 58 hours after she was trapped. Doctors operated Saturday on her injured right foot and said they were hopeful they would not have to amputate it. During her ordeal, her right foot was jammed across her left leg, cutting off circulation and raising a threat of gangrene. The girl was freed from the shaft after round-the-clock drilling efforts by teams of rescuers.

—ARTHUR HIGBEE



WASH AND WORK OUT — In a combination laundrette-gym in San Diego, Gina Dahl works out on an exercise machine, which was installed to attract more customers.



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# Lights Are Dim and Diplomats Grumble as U.S. Embassies Grapple With Austerity

By Richard Homan  
Washington Post Service

WASHINGTON — Lights have been dimmed in the corridors of the U.S. Embassy in Tokyo, spouses were left off the invitation list for an already downsized Fourth of July reception in Cairo, high-ranking American diplomats in Tel Aviv have to share newspapers and, in several countries, visiting U.S. diplomats have become involuntary house guests of embassy employees instead of staying in hotels.

The cutbacks are part of an effort by the State Department to prepare for an anticipated \$44 million shortfall this fiscal year, dictated by congressional budget-shrinking. If it were nothing more than petty harassments like these, diplomats say, they would probably just

grumble and try to ride out yet another year on spending.

But, in the view of diplomats interviewed by Washington Post correspondents in 13 major foreign capitals, essential activities are being jettisoned or severely cut back in moves that are likely to have a long-lasting detrimental effect on U.S. reporting from abroad.

The diplomats said the reductions were being felt especially in areas where the United States is in direct competition with beelined Soviet embassies.

Besides the closing of two small embassies and 13 consulates, diplomats point out, there have been sharp cutbacks in travel. This has forced U.S. officials to pay their own way to what they considered essential conferences, left them heavily outnumbered by Soviet

diplomats at others and, in London, forced the embassy to reduce its consular visits to dozens of Americans in British jails from once a month to four times a year.

Staff reductions have forced many political officers to take on the unfamiliar duties of economics officers, and vice versa, or even to double up as consular officers, issuing visas and passports.

As a result, many diplomats say they see a shrinking role for the State Department. In India, where the embassy faces a shortage of science and commercial officers, a diplomat expressed concern that more and more of the traditional foreign policy responsibility is being shifted to the Defense Department, the Central Intelligence Agency and the National Security Agency where budgets seem to be more bountiful.

In Jordan, where only 30 percent of the U.S. Embassy personnel are State Department officials, a diplomat contended that "they can't cut more, squeeze this function more, without turning the embassy into a support service for other agencies."


A chief worry, U.S. officials abroad say, is that the Soviet Union, under the activist policies of Mikhail S. Gorbachev — and an apparently more generous budget for his diplomacy — is positioning itself to outstrip the United States in prominent regions of the world.

In India, the world's second most populous nation, cutbacks have left the United States with 96 professional diplomats and 260 support officials while the

Soviet diplomatic staff has grown to about 600. In West Germany, when the opposition Social Democratic Party held its national convention in Nuremberg last year, the Soviet Embassy sent six Bonn-based diplomats. The U.S. Embassy could afford to send only two.

A strong undercurrent in diplomats' discussions of the cuts is a bitterness toward Congress, which continues to impose heavy responsibilities on the embassies and whose visiting members, many complain, continue to expect first-class escort services from missions that they have reduced to second-class size.

"The same Congress that cuts our resources requires the same amount of reporting," a diplomat in Cairo complained, referring to annual reports or



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## As Reminder to Managua, Contras Step Up Attacks

By Stephen Kinzer  
New York Times Service

MANAGUA — Nicaraguan rebels backed by the United States have mounted a series of attacks in recent days intended to show that the country will not achieve peace until their demands are met.

The rebels, known as contras, are having particular success in shooting down government helicopters. Managua confirmed that it lost two helicopters to hostile fire this week.

[Anti-government rebels said they shot down an air force transport plane in northern Nicaragua on Saturday. The Associated Press reported from Managua, but the Defense Ministry said the plane crashed because of mechanical problems.

[Both crewmen died when the Soviet-built An-2 plane went down in the Bramadero Abajo region of Jinotega Province, which borders Honduras, while on a routine flight, the Defense Ministry said.

[The contras' statement said the rebels downed the plane with a Redeye ground-to-air missile and seized weapons and ammunition from the wreckage.]

On the ground late last week, the contras forced the closing of the strategic Rama road, the principal east-west artery. Spokesmen for both sides said coordinated attacks were under way against several towns in the area.

"If they don't want to talk peace with us, then the war will continue," said Bosco Matamoros, a spokesman for the contras.

The Sandinist government has maintained that the contras are not an independent force, but a creation of the United States, which supports and finances them. The Sandinists have said they would therefore negotiate only with the United States.

Instead of talking with contra leaders, the government has sought



A Sandinist, left, and a contra debated politics Saturday at Las Manos on the Honduran border. A fifth "family reunion day" was proclaimed to let families split by war reunite.

position to contacts with contra leaders.

"Latin American countries are putting pressure on the Sandinists to modify their position on dialogue," a South American ambassador said. "We are telling them that governments are talking with armed insurgents in Guatemala and El Salvador, and that there is no realistic hope of stopping the war here unless the two sides talk to each other."

Reagan administration officials have said they intend to use the Sandinist refusal to talk to the contras to argue that Nicaragua is not truly interested in peace. They hope this argument will help them win congressional approval for renewed military aid to the contras.

Apparently in an effort to show their military strength, the contras have staged several raids in the north in recent days. But the latest attacks along the Rama road, which appeared to be one of the largest contra operations in months, were far more significant.

The government has closed the area to civilian traffic and has cut telephone and other communications links. Red Cross officials were appealing for blood donations, and ambulatory patients were reportedly being moved out of the hospital in nearby Jinotega to make room for the wounded.

The area near the road has been a center of contra activity for years. But the attacks Wednesday were the most coordinated actions there since large numbers of contras reentered the country from Honduran bases in December and January.



# OIL & MONEY

## THE CHALLENGE OF THE 1990's

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| <b>UNITED STATES ENERGY POLICY</b><br>William Martin, Deputy Energy Secretary, United States<br><b>CHALLENGE OF THE 1990's: A CORPORATE VIEW</b><br>John R. Hall, Chairman and Chief Executive Officer, Ashland Oil Inc.<br>Philip Ozley, Chairman, Tenneco Europe Ltd.<br>Nader Sultan, President, Kuwait Petroleum International Ltd.<br><b>GLOBAL DEMAND AND SUPPLY: AN OVERVIEW</b><br>John H. Lichblau, President, Petroleum Industry Research Foundation<br>Respondents: Herman T. Franssen, Economic Advisor of H.E. The Minister of Petroleum and Minerals of the Sultanate of Oman<br><b>BREAKOUT GROUPS</b> (These three sessions will run concurrently)<br><b>NORTH AMERICAN MARKET</b><br>Theodore R. Eck, Chief Economist, Amoco Corporation<br>Milton Lipton, President, W. J. Levy Consultants Corporation<br><b>THE EUROPEAN OUTLOOK</b><br>Giuseppe Sfiligotti, Executive Vice-President, AGIP SpA<br>Ted White, Managing Director, Petroleum Economics Ltd.<br><b>THE PACIFIC OUTLOOK</b><br>Donald J. O'Brien, Chief Economist, CALTEX Petroleum Corporation<br><b>LUNCH</b><br><b>THE OUTLOOK FOR THE UNITED KINGDOM'S PETROLEUM INDUSTRY</b><br>The Rt. Hon. Cecil Parkinson M.P., Secretary of State for Energy, United Kingdom<br><b>MARKET FORCES IN CHARGE OF SUPPLY MANAGEMENT</b><br>John Deuss, Chairman, Transworld Oil Ltd.<br><b>GEOPOLITICAL OUTLOOK</b><br>Charles Dibiase, President, The American Petroleum Institute<br>George Quincey Lumsden, Director, Oil Market Development, International Energy Agency<br>Mehdi Vaziri, Senior Analyst, Kleinwort Grenson & Co.<br>Moderator: Robert Mabro, Director, Oxford Institute for Energy Studies. | <b>MINISTERIAL PRESENTATIONS AND DISCUSSIONS</b><br>H.E. Rikwan Lukman, Minister of Petroleum Resources, Nigeria, President of the OPEC Conference<br>H.E. Arne Olsen, Minister of Petroleum and Energy, Norway<br>H.E. Abd al-Hadi Muhammad Kandil, Minister of Petroleum and Mineral Resources, Egypt<br>Moderator: Herman T. Franssen, Economic Advisor of H.E. The Minister of Petroleum and Minerals of the Sultanate of Oman<br><b>THE WORLD ECONOMY: RETURN TO NORMAL GROWTH</b><br>Stephen Morris, Senior Fellow, Institute for International Economics, former Chief Economist, O.E.C.D.<br>Respondents: Timothy Congdon, Chief U.K. Economist, Sherraton Lehman Brothers<br><b>BREAKOUT GROUPS</b> (These three sessions will run concurrently)<br><b>FINANCING EXPLORATION AND DEVELOPMENT</b><br>Jean-Jacques Lacroix, Head of Economics Department, Institut Français du Pétrole<br>David Parkes, Manager, Project Finance Unit, National Westminster Bank<br><b>THE FINANCIAL HEALTH AND PROSPECTS OF THE OIL INDUSTRY</b><br>Dillard Springs, President, Petroleum Analysis Ltd.<br><b>CHINA: PROSPECTS FOR OIL DEVELOPMENT</b><br>Kim Woodard, President, China Energy Ventures<br><b>LUNCH</b><br><b>FINANCIAL STRATEGIES FOR THE OIL INDUSTRY: NEW INSTRUMENTS AND MARKETS</b><br>R. Harwell Gardner, Treasurer, Mobil Oil Corporation<br>Robert B. Weaver, Senior Vice-President, Global Energy Executive, The Chase Manhattan Bank, N.A.<br><b>IMPROMPTU PANEL DISCUSSION</b><br>Moderator: Nicholas G. Votie, Oil Consultants, London and The Hague |

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The fee is £595 (plus VAT @ 15% £89.25, total £684.25) or the equivalent in a convertible currency for each participant. This includes lunches, a cocktail reception and post-conference documentation. Fees are payable in advance of the conference and will be returned (less £50 administration charge) for any cancellation postmarked on or before October 12. Cancellations postmarked later than October 12 will be charged the full fee. Substitutions may be made at any time.

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19-10-87

By Julia Preston  
Washington Post Service

PANAMA CITY — While William Wong, a travel agent, was driving home from work one recent evening, he got caught up in a horn-toting car caravan of anti-government protesters.

Suddenly riot policemen dragged him from his car, shoved him onto the floor of a paddy wagon and kicked him for 10 minutes.

Mr. Wong, 58, spent the night in jail. After being released, he was rushed to a hospital, where doctors removed a kidney ruptured in the beating.

"It was very bad luck" was his understated comment in a bedside interview.

The incident was an indication that the government, controlled by the military leader, General Manuel Antonio Noriega, has been slowly but firmly tightening its grip to quell continuing ferment in Panama, home of both the strategic Panama Canal and the Southern Command, the largest U.S. military operation in Latin America.

The government, blaming the mainly middle-class opposition for an economic slump, is seeking to silence daily street demonstrations with restrictive laws and intimidating harassment.

A recent report by Physicians for Human Rights, an independent group of American doctors, found that more than 1,000 Panamanians suffered significant injuries from bird shot used by the riot police

during the first three months of the demonstrations, which began June 9. At least six persons were blinded in one or both eyes.

Three Panamanians have been killed by gunfire since a severe crackdown began July 26.

General Noriega, in an interview Friday in a pro-government newspaper, said he was defending the country against a policy of "economic aggression" by the United States.

He labeled the opposition "descendants of Cain and Abel" who had "sold their souls to the devil trying to reach the seats of power."

Just before Mr. Wong's arrest, President Eric Arturo Delvalle, considered a figurehead for General Noriega, made a stern nationally televised speech prohibiting further street protests.

Within minutes of his closing words, opposition protesters took to the streets in their cars and waved the white flags and handkerchiefs that have become their hall-mark.

Just as quickly, riot policemen intercepted the caravan, smashing windshields with runabouts and arresting at least six Panamanians, including Mr. Wong, witnesses said.

Nine U.S. servicemen and an American Panama Canal employee were also rounded up by the police in different parts of the city that night and held until morning.

The mayor of Panama City, Jilma Noriega de Jurado, a relative of the general, put the police and judges on notice that they should begin imposing prison terms of up to two years for such infractions as spreading leaflets, painting graffiti and "the unnecessary use of horns."

The arrests have continued. Five sympathizers of the National Civic Crusade, the opposition coalition, were picked up Oct. 13 in the northern city of Colon in police raids on a flower shop and a photographer's studio.

The government's actions have picked up pace with the approach of Thursday, when the opposition has scheduled a major march and general strike.

Wholesalers who have sold paper to the opposition for leaflets received police warnings that they could not sell more than a ream at a time, one stationery storekeeper said.

Last week the government sent the National Assembly a proposal for a new press law.

It prohibits printing any text that "offends the dignity" of General Noriega or anyone in government; bans "adulterated" economic news and any article that is "an apology for foreign intervention;" and forbids not giving a source's name.

"The only clause this law doesn't have is the one outlawing use of the words 'pincelada' face," said a Christian Democratic legislator, Willie Cochez. That term is used by

General Noriega's detractors to refer to his pitted complexion.

In fact, the proposal does include an article prohibiting references to "physical defects" of government leaders.

Mr. Delvalle has indicated that once the law is passed, the government will allow the opposition press, closed in late July, to reopen.

Editors of three closed newspapers have not decided yet whether they will resume publishing under the new law.

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Prime Minister Margaret Thatcher of Britain, with her foreign secretary, Sir Geoffrey Howe, displaying a document at the Commonwealth conference in Vancouver.

## Britain, Commonwealth Clash Over South Africa

By John F. Burns  
New York Times Service  
VANCOUVER, British Columbia — Outbursts by fellow Commonwealth leaders against Prime Minister Margaret Thatcher of Britain marked the conclusion of the 47-nation Commonwealth conference here.

As expected, Mrs. Thatcher refused to endorse any new economic sanctions against South Africa, and she maintained her position that those already adopted by Britain and other Commonwealth members are more likely to retard than advance the end of apartheid.

She also refused to join other Commonwealth nations Saturday in an effort to monitor the enforcement of those sanctions.

The result was a statement by the conference that affirmed the need for "wider, tighter, and more intensified application" of sanctions by all nations, and an effort to see that the Commonwealth measures, and those adopted by the United States and the group of Nordic countries, are adopted worldwide.

But the sections of the statement dealing with sanctions included an explicit dissent by Britain, which has the largest trade and investment ties with South Africa.

After the statement was released, a group that included Prime Minister Rajiv Gandhi of India, Prime Minister Bob Hawke of Australia, President Kenneth Kaunda of Zambia and Prime Minister Robert Mugabe of Zimbabwe assailed Mrs. Thatcher for her stand.

Although Britain has been at odds with its Commonwealth partners over South Africa before, the vehemence of the criticism went beyond what has been customary at these gatherings.

"I am completely disillusioned, and dismayed," Mr. Mugabe said, referring to the disparagement of sanctions, sometimes in mocking tones, offered by Mrs. Thatcher and British officials to reporters during the five-day conference.

Mr. Hawke was joined in his

opposition to Britain by other leaders of the "old," predominantly white Commonwealth, including Prime Minister Brian Mulroney of Canada and Prime Minister David Lange of New Zealand. Mr. Hawke called the commentaries by British officials "abominably untrue."

Mrs. Thatcher's position was that the sanctions adopted by the Commonwealth and other nations have had little practical effect on the South African economy, that they have tended to deprive blacks of jobs more than whites and that they have stiffened the resolve of many whites to resist racial reform.

Mrs. Thatcher said that the foes of apartheid should seek to make South Africa more prosperous because economic growth had proven to be the most effective way of breaking down racial barriers.

"It's a curious social barometer, isn't it, to measure progress by the millions of jobs that you can destroy?" she said in a television interview.

Sanctions imposed by the Commonwealth have included bans on loans to the South African government and on purchases by South African government institutions, a prohibition on new investments and the rupture of air links. In addition, there have been embargoes on exports to South Africa of computer equipment, nuclear technology and oil, and restraints on imports of certain South African products, including food products, coal, uranium and steel.

Almost overlooked was a commitment by the Commonwealth nations to increase aid to six black African states, South Africa's neighbors, which have accused Pretoria of sabotaging their economies and transportation links.

The government leaders undertook to concentrate on the rebuilding and protection of transportation and communications links, with emphasis on the port of Maputo in Mozambique and the Limpopo railroad line connecting the port with Zimbabwe.

## Rebel Cleric May Regain Legal Status, Vatican Says

By Roberto Suro  
New York Times Service

ROME — The Vatican has announced plans to restore legal standing to a rebel French archbishop and his outlawed following of traditionalist priests, in a move to mend fences with one of its most vociferous critics.

The French archbishop, Marcel Lefebvre, who rejects the changes of the Second Vatican Council and who has accused Pope John Paul II of "blasphemy," spent an hour Saturday morning with the pope's primary exponent of orthodoxy, Cardinal Joseph Ratzinger.

Afterward, the Vatican announced that John Paul would appoint a personal representative to investigate the archbishop's priestly order and establish new regulations for it.

The Vatican said the talks with Cardinal Ratzinger, prefect of the Sacred Congregation for the Doctrine of the Faith, the Vatican theological watchdog, had taken place "in a climate of communion."

There was no indication of whether Archbishop Lefebvre had agreed to modify any of his positions, which have caused some in the Vatican to consider him a very dangerous dissident.

Negotiations leading up to the action Saturday began earlier this year after the archbishop threatened to ordain several bishops without Vatican approval, the most severe form of rebellion in the Roman Catholic Church. The pope, according to Vatican officials, was anxious to avoid this because church law would have required him to excommunicate the archbishop and formalize a schism, an outright break with the archbishop's followers.

Archbishop Lefebvre has become something of a hero to some highly traditional Catholics, especially in Europe, because he and his followers insist on saying the Mass in the old Latin form. He has also rejected the church's modern teachings on religious liberty, which were codified more than 20 years ago by the Second Vatican Council.

A long period of consultations and study will be required before final action can be taken on the archbishop's case, Vatican officials said, indicating that important unresolved questions could undo the peacekeeping efforts.

In 1975, the Vatican withdrew its approval of the archbishop's society, the Priestly Society of St. Pius X, and the next year Pope Paul VI suspended the archbishop from functioning as a priest or a bishop because he disobeyed a direct papal command to stop ordaining priests for his society.

Since then, Archbishop Lefebvre has opened affiliates around the world of his society, which has its headquarters in Ecône, Switzerland, and has continued to ordain priests.

## Typhoon Kills 6 in Japan

TOKYO — A typhoon designated Kelly, packing winds of up to 79 miles per hour (126 kilometers per hour) killed at least six persons as it cut a swathe across Japan, officials said Saturday.

## Avant-Gardists Dominate Paris Ready-to-Wear

By Bernadine Morris  
New York Times Service

PARIS — Jackets are losing their shoulders, bosoms are popping out of deep décolletages and long gloves and hats are returning to fashion. These are some of the trends emerging for next spring and summer from the full schedule of ready-to-wear openings over the weekend. The avant-gardists have dominated the runways in the tents at the Louvre and other locations around Paris.

Jean-Paul Gaultier is a prominent cult figure credited with leading fashion down bold new paths. Five thousand of his fans traveled to former slaughterhouse district of

La Villette to check his blueprints for the future. The bare-shoulder suit is one of his big contributions. Along with pads and collars, the

### PARIS FASHION

tops of some of his jackets have disappeared. Instead, a scarf is draped around the shoulders, or the cuffed neckline of the T-shirt inside the jacket is pulled over the rim. You have to see it to believe it. Another breakthrough is the jacket that ends in pants, like a leotard.

The bare-shoulder jacket is paired with wide-leg trousers. Gaultier has been showing mini-skirts for so many years he is bored

with them now that the rest of the world has taken them up. So he has turned to pants. That's how it works with the avant-garde.

He also shows some relatively conventional jackets shaped with hourglass curves. He started this last season and obviously they have caught on.

That's the good news. The bad news is that the Gaultier obsession with undergarments, especially girdles and bras, continues. Jackets and jumpsuits have padded bra tops. A ringer for a high waisted girdle serves as a skirt with a denim jacket and dresses mimic old-fashioned corsets with lacing at the back or zippers at the front.

Thierry Mugler's theme for the season is Africa. He presented his collection at the Museum of African Arts near Vincennes for verisimilitude. There was so much action nobody paid much attention to the clothes. In fact, the splendid manequin, tried to lead a reluctant tiger cub down the runway. The tiger balked, but Mugler eventually won. Who knows what she wore? Something short in creamy leather with a lot of matching horsehair. Then there was the group of bare-chested men and women in loincloths. Are loincloths coming back?

What about the African look? Well, there were tree-bark prints, miles of gold bangles running up the arms and neck, and a safari jacket or two.

Never mind the specifics. People will be talking about the performance for a long time.

Claude Montana, whose shows once recalled the Ziegfeld Follies, now concentrates on clothes. His collection is filled with meltingly pretty colors — pale rose, sage, chartreuse and shades of blue look girlish and decorative in cotton poplin and smooth leather. Jackets are often long and skirts are very short. The skirt seems to be withering away. Montana often replaces it with shorts. Navy shorts and white blouses make an attractive group of styles. Short matching gloves turn up with most outfits.

A mysterious touch is the pouch-like protrusions in the front of jackets and at the waists of some skirts. Some observers felt they were there to carry mud or money or groceries, but there's probably a better reason.

Once filled with aggressive tailored clothes, the Montana collection is now soft and decorative. It is

one of the pleasantest collections to be shown so far, if you're not put off by very short skirts.

Karl Lagerfeld's message is more diffuse. Hardly a fashion point is left untouched in the collection of 160 pieces that ranges from slinky contemporary looking knitted clothes to updated 18th-century ball gowns. Very full long skirts over very short underskirts is one of the current interpretations of the Marie Antoinette look. Very short and full skirts is another.

The accessories were as riveting as the clothes. Rounded straw hats framed the head like halos. Gloves had each finger in a different color or were boldly striped. Bracelets were made of makeup brushes or lipstick joined together.

The watchword was "sexy" as bosoms popped out of low necklines, waists were taut and dresses were cut like slips and edged in lace. One short skirt dress was made of lacquered polka-dot pictures. Lagerfeld pours ideas out in breathtaking profusion in his first collection under the aegis of Revillon.

Marie Antoinette didn't fare as well this season as he did with his last collection when he concentrated on

stretch materials and used them in simple, fluid clothes. Today, however, his clothes look overdesigned and heavy. His best clothes are still his simplest.

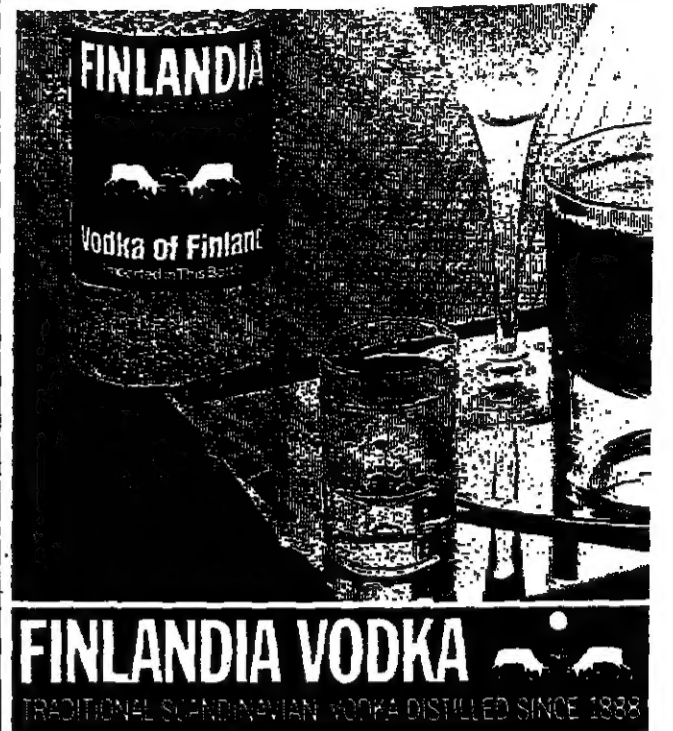
Advanced designs need not be unpleasant. Issey Miyake proves that with a beautiful collection of mostly casual clothes that is wildly inventive but still looks wearable. Cork is one of his new materials, hand knitted into fluffy bloused tops and skirts and pants. Imaginative headgear, made of rubber tire tubing, sponge and cork, accompanies his clothes. These are as simple as a long side with slits through which the arms can pass. Clutched around the body, it makes a cozy jacket. The collection is an adventure in good dressmaking.

### Soviets Reach 283 Million

United Press International  
MOSCOW — The population of the Soviet Union stood at 283.8 million on Oct. 1, Tass reported. The figure, given in a brief dispatch Saturday, showed that the Soviet Union has the third-largest population in the world after China and India.



Karl Lagerfeld's updated 18th-century ball gown in navy organza, with a corset-like bodice like that of Marie Antoinette.



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## Stinger Missile Parts On Iranian Ship Were Sent by U.S. to Afghans

By Stephen Engelberg  
and Bernard E. Trainor  
New York Times Service

WASHINGTON — U.S. intelligence agencies have established that the Stinger missile parts found on an Iranian attack boat in the Gulf this month were part of a batch supplied by the United States to Afghan rebels, who lost them to Iranian forces in June.

Reagan administration officials said the Afghans had lost the missiles in a skirmish with Iranian troops who surprised them after they crossed the Iran-Afghanistan border.

The officials said that there were casualties on both sides from the exchange of fire, but that after the Iranians called in reinforcements, the guerrillas were overwhelmed and their loss of as many as 30 Stinger missiles was taken.

Officials gave various estimates of the number of missiles involved. One said that 30 were lost, while two others said that the number was 8 to 10.

They said the capture of the missiles then touched off an intense round of diplomatic activity. Pakistani officials and the Afghan guerrillas, appealing for solidarity with the Islamic cause, tried to convince Iran to return the missiles. U.S. officials said they believed that the talks, which are continuing, now had little chance of success.

The missile parts, including a battery marked with a serial number, were found aboard one of two Iranian patrol boats captured by the U.S. Navy in the Gulf on Oct. 8 after they fired at U.S. helicopters.

Officials say they are convinced that reports that the Afghan groups had sold some of the missiles to Iran are untrue. They say they have no evidence to contradict the story of the missiles' capture as told by the Afghan commanders.

Several officials cautioned that the investigation into the loss of the Stingers was continuing and that officials were leaving open the possibility that the Afghan rebel commanders might not have told the whole truth.

"We have no reason to doubt there was a firefight," one official said.

The conclusion that the batteries were originally part of a shipment of weapons from the United States to the Afghans is significant because it is likely to revive a debate in the administration and Congress over whether and under what circumstances such high-technology weapons should be provided to guerrilla groups. The Central Intel-

ligence Agency, operating in close cooperation with the government of Pakistan, has been covertly supporting the Afghan rebels for nearly seven years.

After sharp internal debate, the administration decided in 1985 to begin supplying the rebels with the weapons. Some military officials objected because they feared the weapons could be captured or lost and then used against U.S. forces.

Officials said that knowledge of the capture of the Stingers was initially kept to a very small group of officials in hopes of maintaining secrecy over the Pakistanis' diplomatic efforts. But they said that the Joint Chiefs of Staff and the commander of Gulf forces had been among those who were alerted.

Officials insisted that the Pentagon had been given sufficient notice to insure that U.S. aircraft patrolling the Gulf were prepared to counter the threat presented by the Stinger, a shoulder-fired weapon that has been used with devastating effectiveness against Soviet aircraft in Afghanistan.

The Stinger comes in several versions; officials said that the Afghans have been sent only the basic Stinger. The officials said U.S. aircraft were equipped with advanced flares to deceive the heat-seeking missile.

Officials said that it was possible for the Iranians to learn how to fire the relatively small number of Stingers they have captured, but that it was unlikely they could begin mass-producing their own copies. Iranian officials have said in recent days that their country was now making Stingers.

One official added, however, that Iran could well sell one of the Stingers to the Soviet Union, which has the technological know-how to produce a replica.

As pieced together from accounts by more than a half dozen administration officials, the loss of the Stingers began in early June when a group of Afghan rebels was making its way along the southwest corner of Afghanistan in Nimruz Province, near the Iranian border.

The officials said that because the group came to a river too deep to ford, it was forced to change course and crossed into Iran while going around it. By another account, the Afghans were running short of gasoline and decided to search for fuel inside Iran.

While there is some disagreement over what motivated the Afghans to cross the border, the officials agree that the Afghans were in Iran when they were discovered by Iranian forces.



Ida Nudel, a Soviet economist and celebrated Jewish activist, who arrived in Israel on Thursday after struggling to emigrate for 16 years, with Secretary of State George P.

Shultz on Sunday. She was speaking from Jerusalem to President Ronald Reagan, who was visiting his ailing wife, Nancy, at the Bethesda Naval Hospital in Maryland.

## GULF: Reagan Reaches Decision on a U.S. Response but Won't Disclose It

(Continued from Page 1)

11 tankers that Kuwait registered in the United States last summer to defend freedom of navigation in the Gulf.

A U.S. official accompanying Mr. Shultz said that the Saudi leadership had made clear to the secretary its desire for a U.S. military response to the recent attacks. Hardly anything the United States might do would be excessive in the Saudi view, the official said.

The state-controlled news media in Kuwait called Saturday for strong U.S. military retaliation. A Kuwaiti newspaper characterized

the attack as a "direct challenge to the United States, whose naval task force has undertaken to defend freedom of navigation in the Gulf."

Mr. Shultz reported that Kuwait would take the missile attacks to the United Nations Security Council either on its own, in concert with other nations of the six-member Gulf Cooperation Council or with the Arab League, with the United States favoring the course of a collective appeal.

The Saudi foreign minister, Prince Saud al Faisal, said in an interview that his government had been in diplomatic contact with

Kuwait and that "Kuwait has the full support of the GCC and the Arab League in whatever action it decides to take."

Mr. Shultz confirmed that the United States had exchanged written messages with Iran on the two nations' purposes in the Gulf, but he denied a report that the U.S. messages spelled out in detail the Iranian actions that would lead to American retaliation.

"We're not going to tell them our game plan," he said.

The basic message to Iran in the diplomatic communications, according to Mr. Shultz, was that

"we're there to protect our interests and those of our friends and allies. We're not there in an aggressive posture."

Meanwhile, an Iranian naval commander charged that U.S. forces had "badly tortured" four wounded Iranian Revolutionary Guards during their detention after an armed clash in the Gulf. Tehran's official press agency, IRNA, reported Sunday.

The men, who were wounded when U.S. forces attacked three Iranian boats Oct. 8, were repatriated Saturday through neutral Oman.

## POLICY: U.S. Ponders Gulf Role

(Continued from Page 1)

acutely aware of miscalculations in the last three months about Iran's readiness to risk direct confrontation with the United States, seem to be weighing closely this time how — or whether — to make the next step up that ladder.

From the beginning, administration policy-makers have offered changing definitions of U.S. objectives, ranging from the limited task of protecting only the 11 reflagged Kuwaiti ships to defending the free right of navigation in the Gulf's international waters for all shipping.

The rules of engagement laid down for U.S. warships escorting reflagged Kuwaiti tankers do not now extend into Kuwaiti waters. But several other stated U.S. commitments would seem to require some U.S. action.

For example, a State Department spokesman, Charles E. Red-

man, said at a Sept. 9 news briefing that while there was no certainty what the United States might do if a U.S.-flagged ship was hit by Iran inside Kuwaiti waters, "we protect U.S.-flagged shipping throughout the world, wherever it is."

The other commitment, renewed by Secretary of State George P. Shultz as recently as Thursday, has been to tell Iran that the United States is determined to show its resolve to help its Arab Gulf friends defend themselves against Tehran's threats and to keep the Soviet Union out of the Gulf.

The U.S. purpose, he said, is "to see to it that Iran does not succeed in becoming dominant in the Persian Gulf by intimidating and bullying the Gulf states, and that the Soviet Union does not become, in a sense, the protector of those vital supply routes."

## PUMPKINS: The Heavyweights

(Continued from Page 1)

until Stephen, who had come across the method in a sci-fi film called "Dark Star," sent for a news sheet on hydroponics from the Encyclopedia Britannica, bought a packet of seeds and failed utterly to win a prize at all.

"At least I got a fruit," he says. "Somebody said I had a lot of guts and willpower. I thought, 'Blimey, that's a nice thing to say.'"

Stephen didn't compete this year as he didn't have a suitable entry, but watch out next year. Although Stephen is too nice a guy to have the killer instinct a champion needs, he is probably on to a good thing. To grow a giant pumpkin normally requires 250 to 300 square yards of space. Stephen's pumpkins grow neatly on shelves in his backyard.

They are housed in a pumpkin-shaped greenhouse that Stephen designed and built, with a De Lorean-style gull-wing door, and they are fed by drip tubes containing nutrients. Whenever he thinks he might get a few quids' worth of sponsorship out of an interview, he says he feeds his pumpkins beer.

"I rise to the occasion," he says. "If it's Australian TV, I say it's Foster's lager, that's the finest Australian lager; if I have American TV, I say I always give them Budweiser. I'm hoping someone will say, 'Listen, we can buy you a few grand if you give them Budweiser.'"

No one has, and keeping pumpkins warm and well fed is not cheap.

"I would have thought they'd grow bigger," he said, "because they've got a more leisurely life style, just sitting on their shelf. At the end of last year when the nights started drawing in, I bought an artificial sun lamp — cost me 290 quid — and stuck that in trying to trick them into believing it was summer. The pumpkins were not fooled."

He has tried talking to them — "I threaten them, curse them, tell them I'm going to cut them off at the roots" — and he plays them rock 'n' roll.

"It's a bit eccentric, I know," he said, "but it might give me an edge. I know people play Liszt and Beethoven and that sort of thing, but I thought I'd try rock 'n' roll because I've got the tapes." Chuck Berry and Eddie Cochran haven't cut the trick, so Stephen is planning to form a live rock group and is learning guitar.

"I don't want to be like Eric Clapton or Segovia or anyone like that," he said. "I just want to play basic rock 'n' roll. I practice every night. I'm going out tonight because I get on me mmm's nerves."

Last year's meaty 30-pounder ended as a jack-o'-lantern photographed with Stephen's expensive American guitars as a promotion play when he has a pumpkin to promote. Right now, he says he



Stephen Liddard grows pumpkins hydroponically.

thinks the problem is seeds, and what he wants to do is get giant seed from Robert Gancarz, the American world title holder.

"I wrote to him, 'World Champion Pumpkin Grower, New Jersey, New York, U.S.A., and I said: 'Listen, send me some of your champion seeds and I'll grow them in England. If I win the 12 grand I'll split it with you.' The envelope came back, 'Not Known.'"

Stephen didn't even know how to say hydroponics when he started. "I knew nothing about pumpkins; I never even seen a pumpkin," he said. "The only one I ever seen was in Cinderella."

For someone so green, he has already made a mark in the pumpkin world, and he says Pam De-champs of Garden News was sad to

hear that he would not be competing this year. "But I said, 'Next year, and she said, 'We'll be looking forward to that with anticipation.'"

This was nice, he says, because the pumpkin world has not been all that welcoming. "Most people, when it comes down to the nitty-gritty, don't want to know," he said. "I had a nutter here said he was an experimental engineer and a member of Mensa. He wanted to sell the greenhouse in the U.S. He said, 'How about if you mount a bike inside and cut a hole in the roof and make it a mobile observatory, and when you pedaled it would turn.' He's a nutter, I thought."

It isn't easy to be a pioneer, but sure as God made little pumpkins, Stephen will stick to it and with luck may win the prize and live happily ever after. In the meantime, he has another hobby: customizing cars. If he ever gets a pumpkin big enough, he can turn it into a coach.

## Shultz Exhorts Israelis To Revive Peace Effort

By Don Oberdorfer  
Washington Post Service

JERUSALEM — The U.S. secretary of state, George P. Shultz, wound up three days of meetings with the rival leaders of the Israeli coalition government by calling Sunday for "energy, unity and resolve" in restarting an Arab-Israeli peace process and warning that "no one helps the chances for peace by doing nothing."

Mr. Shultz's remarks at his only public address in Israel were interpreted by Israeli journalists as critical of Prime Minister Yitzhak Shamir, who has vetoed the diplomatic initiatives of his rival, Foreign Minister Shimon Peres.

In a news conference several hours after the speech, however, Mr. Shultz went out of his way to praise Mr. Shamir's desire for peace and announce that the prime minister would pay an official visit to Washington next year.

Mr. Shultz met three times with Mr. Shamir and three times with Mr. Peres — but never with the two men together — during a three-day visit that was interrupted by a trip to Saudi Arabia on Saturday.

He said that "I can't point to any particular thing and say, look, we've moved from here to there" as a result of the discussions.

Mr. Shamir has resisted a proposed international conference on peace in the Middle East, which has won the endorsement of the Arabs, the Soviet Union and his coalition partner, Mr. Peres.

Mr. Shultz pledged that the United States was willing to explore the idea of such a conference,

although the government has not endorsed it.

In his address, to the Weizmann Institute in Rehovot, the secretary declared that "those who are reluctant to explore new ideas, or even revisit old ones, have an obligation to offer something different as an alternative to the status quo."

Questioned about the statement in his news conference, however, Mr. Shultz insisted that this did not apply to the current Israeli government talks, saying he had found "eagerness to discuss the peace process on all sides."

The one area of open discord was between Mr. Shultz and nine Palestinian leaders from the West Bank and Gaza, who refused an invitation to meet him.

Mustafa Natshe, former mayor of Hebron and spokesman for the group, said, "Our people refused to come as a kind of protest against American policy."

He charged that U.S. policy "ignores our national rights, our right to self-determination and our right to have our own state, and refuses to recognize the Palestine Liberation Organization as our sole legitimate representative."

Mr. Natshe said the group was particularly angry at the recent State Department order to close the PLO information office in Washington.

Mr. Shultz said "it is too bad for them" that the Palestinians had refused the invitation to talk because "Palestinians keep saying they want representation, they want to be heard, that they want to be listened to, that they have ideas that they have an important role."

## NANCY: Full Recovery Seen

(Continued from Page 1)

president's wife said after the operation: "I'm glad that this is over and it certainly shows the value of regular checkups."

The chief White House spokesman, Martin Fitzwater, said a biopsy had indicated the presence of a "noninvasive intraductal adenocarcinoma," which he said was a common form of breast cancer found in the milk ducts. The cancer was about seven millimeters (about a quarter of an inch) in size, which was "antipathetic," Mr. Fitzwater said, and it was "concentrated in an identifiable area." The procedure involved removal of the breast and the lymph nodes under the arm.

Dr. Hutton said the laboratory examination of frozen sections "shows no evidence of malignancy in the lymph nodes or surrounding tissue."

Mr. Reagan was driven to Bethesda early Saturday morning, carrying a tote bag that he said contained papers. Dr. Richard Davis, Mrs. Reagan's brother, who is a Philadelphia neurosurgeon, handed him about two dozen pink roses, which the president carried to his wife.

At the hospital, Mr. Reagan told the doctors, "Take good care of her," according to Mr. Fitzwater. The president remained at the hospital while the surgery was performed.

"Honey, I know you don't feel like dancing, so let's hold hands," the president said, according to Dr. Hutton.

## TEST: U.S. Commitment

(Continued from Page 1)

and the Soviet Union last month agreed to step-by-step negotiations to improve procedures to verify compliance with a treaty and set limits on nuclear testing.

"The ultimate objective," said a joint statement, is "the complete cessation of nuclear testing as part of an effective disarmament process."

"The administration is entering this negotiation clearly opposed to the stated goal," said Spurgeon M. Keeney Jr., a former government arms control official who is now president of the Arms Control Association, a private organization that seeks to promote nuclear weapons accords.

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# French Banking

## COUNTDOWN To Deregulation

### March 1986: Stock Market Launches Early Session

The Paris Bourse begins a morning trading session, added to the present two-hour afternoon session. Thirty leading French shares are being traded in the new session, held between 9:30 A.M. and 11 A.M.

### May 1986: Rules for Buying Securities Are Loosened

Residents are able to purchase foreign securities on external financial markets without having to obtain the necessary foreign currency by first selling other foreign securities.

### June 1986: Computers Alter System of Trading

Computerized trading is installed from 10 A.M. to 5 P.M. One year later, 83 stocks were being traded all day. The system is expected to apply to the whole market by the end of 1988.

### September 1987: Traders Get Options Exchange

First stock options exchange is created. In addition, an index-based option is expected to be launched by the beginning of 1988.

### Jan. 1, 1988: Liberalization Of Bank Stocks Scheduled

Through legislation being debated in the National Assembly this fall, the 45 Parisian banks and 15 regional firms will be allowed to sell up to 30 percent of their capital to outsiders. This figure will rise to 49 percent in 1989 and to 100 percent in 1990.

### In 1992: Monopoly Ends

The present brokers' monopoly in the market ends. The number of seats on the Bourse, now at 45, is to be increased by an unspecified number.

## Strengths and Weaknesses

## Bankers Hone Bid For EC Leadership

By Robert Pouliot

**P**ARIS — Still shaken by the effects of three years of change in the industry, French banking is facing a rough ride to 1992 if it wants to win the European leadership in finance.

"Unless we move fast, we will get buried deep into our hexagon," said Henri Moulard, managing director of the Société Lyonnaise de Banque. His \$7 billion bank aims to recreate a "Latin arc" in finance by linking Lyon, Geneva, Milan, Turin and Barcelona with Monte dei Paschi.

While the United States is still debating over the Glass-Steagall Act and cross-border state banking, the lifting of all barriers to capital movements within the European Community has become the top challenge of French banks, with 300 branches, subsidiaries, representative offices and associated institutions spanning the EC.

"Despite our heavy international network," said Olivier Robert de Massy of the powerful AFB, the French bank association, "we still

might be too light in Europe," with one foreign unit out of five operating on EC grounds.

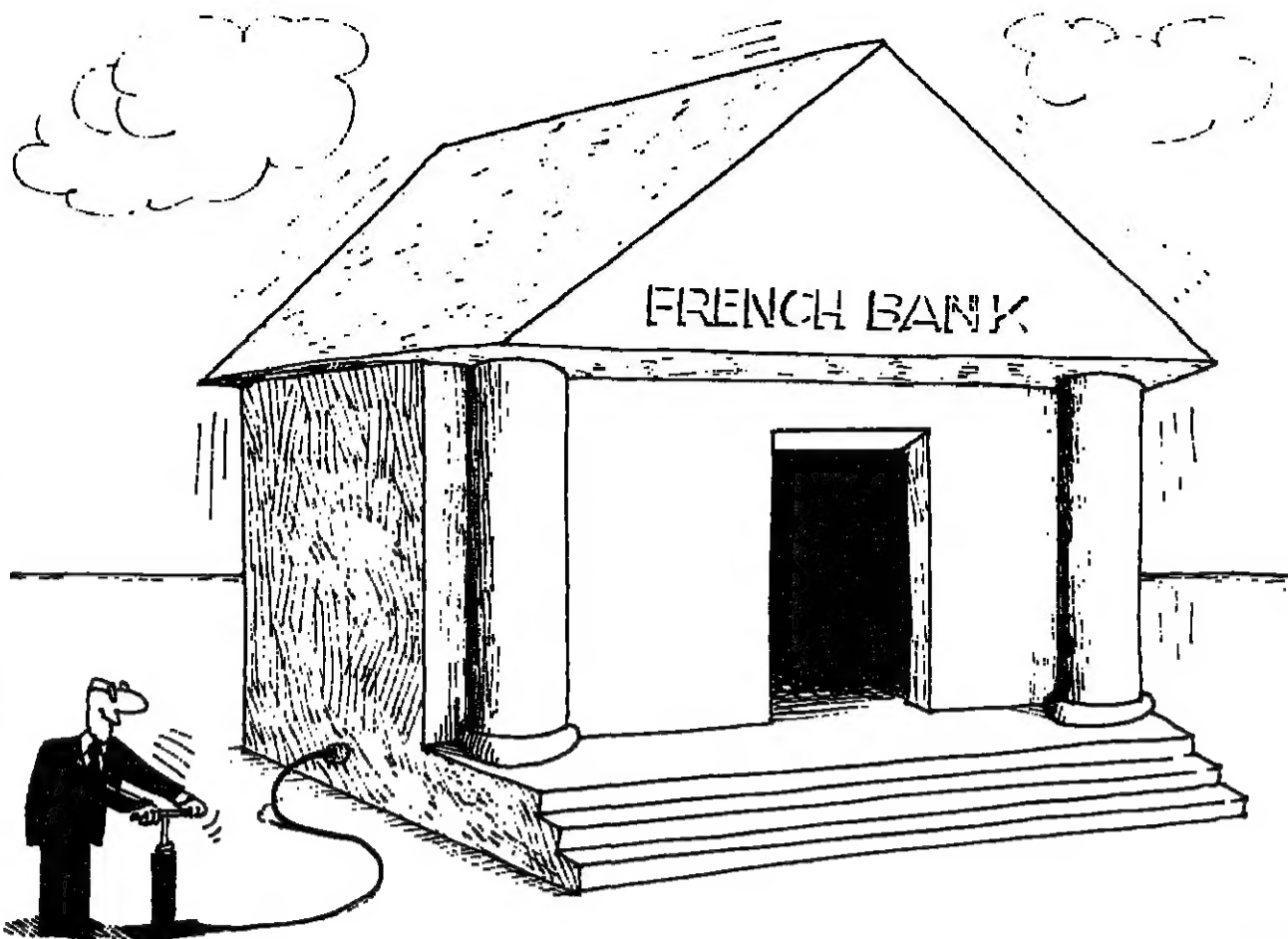
Before taking over Europe, though, problems of adequate capital resources, profitability and quality of staff need to be resolved first at home.

Bank capitalization stands at about only half of what major competitors in Britain and West Germany have in order to face major upheavals on the world market.

France did build massive provisions for non-performing loans way ahead of American or British banks. Last year, the top three banks added 18.5 billion francs (\$2.9 billion) to their stock of provisions now totaling 85 billion francs. By adding provisions and raising capital, the 385 members of the AFB beefed up their first line of defense by 80 billion francs, or 71 percent, in 1986 through the spring of 1987.

And more is to come as leading heavyweights are pushing their coverage of sovereign risks way beyond the 40 percent mark achieved so far. The Paribas group, relying on global capital resources of 71.6 billion francs, plus an

Continued on page 8



## Privatization Goes Ahead Without Investor Enthusiasm

By Julian Nundy

**P**ARIS — Despite the overall lackluster performance of French stocks this year, France has pressed ahead at full speed with privatization — the cornerstone of Prime Minister Jacques Chirac's "liberalism."

Eleven months after the first denationalization, of the Saint-Gobain glass, construction and packaging concern, the verdict among financial experts is that the policy has been a success for the government. At the same time, it has brought a good, if not spectacular, return for the investor.

While the opposition Socialist Party, accompanied by recent rumblings of discontent from

Mr. Chirac's center-right allies in the Union for French Democracy, regularly attacks the program, it is one that seems to inspire little disapproval in the general public.

The complaints about the policy have ranged from charges that Finance, Economics and Privatization Minister Edouard Balladur was underpricing privatized stocks to one that he has been showing excessive favoritism to his political friends when awarding shares to the "hard cores" of investors that control the denationalized companies.

Since Saint-Gobain went on sale last November, 11 companies have been privatized. The government's goal is to denationalize a total of 66 firms.

By late September, the average increase in the price of the first 10 denationalized stocks

was 21 percent, a creditable if unexciting performance from an investor's point of view.

For the government, some analysts see these results as an indication that the stocks were correctly priced at the outset.

"The government can't be accused of selling off national assets at cut rates," said Michael Cocker, an investment counselor at the Banque Louis-Dreyfus who advises foreign investors on French stocks. The Socialist Party had accused the government of setting prices at 25 percent to 30 percent below their real value.

But there is a wide disparity between the performance of the privatized stocks. Saint-Gobain topped the list with an increase of 64.5 percent. The worst performer so far has been Société Générale, with only 3.4 percent since its privatization in June.

Saint-Gobain, while it has been outperformed this year by 25 of the 230 stocks on the main monthly settlement board at the Bourse, remains an excellent buy, bankers say.

"It's been one of our best investment stocks and we are still recommending it," one investment counselor said.

Of the first 11 privatizations, seven were banks and the 12th, due by the end of this year, will be France's largest insurance company, the Union des Assurances de Paris, which is only the 49th largest in world terms.

Analysts complain that this has led to an increase in an already large financial sector on the Paris Bourse at a time when such stocks have been generally mediocre performers. Another insurance company, the Assurances Générales de France, a deposit bank and a

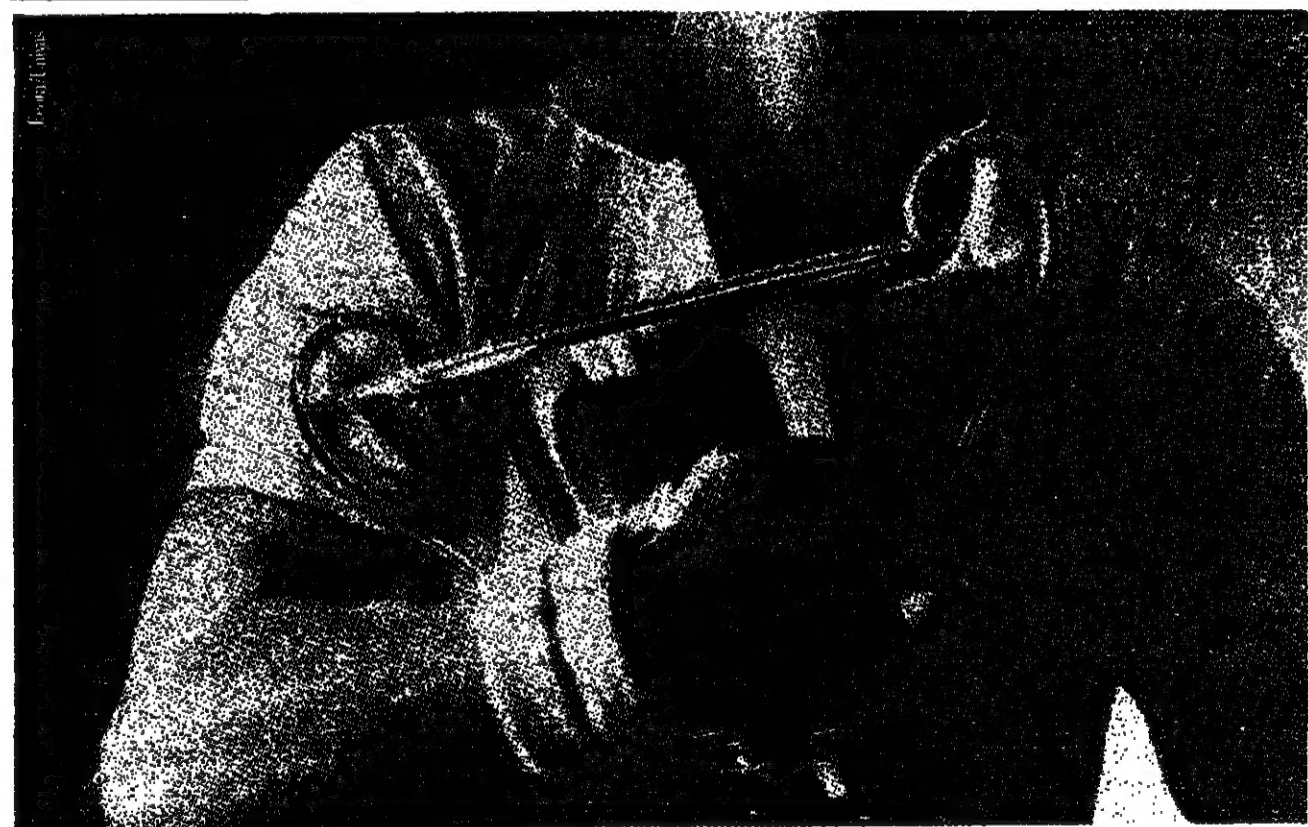
major industrial company, expected to be Rhône-Poulenc, will be privatized early in the new year.

Banks, with their straightforward management structures, are easier to denationalize than sprawling industrial concerns with a spread of differing activity, the analysts say.

The price of the Compagnie Financière de Paribas, the second stock to be privatized, dropped when the bank made a new share offering in the spring, while "the Crédit Commercial de France was pulled down by the general movement on financial stocks and the Société Générale never got off the ground," one banker said.

"People would be more interested if they

Continued on page 8



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# Capital Markets Spur Innovations in Mortgage-Backed Securities

By Linda Keslar

**P**ARIS — The potential boom in mortgage-backed securities here is so certain that at least one major U.S. investment bank that is looking to develop business in the market will not even talk about it.

"The market could develop very quickly," is all the investment banker would say. "We don't want to call attention to it and alert our competitors to our interest."

Salomon Brothers, a major underwriter of U.S. mortgage-backed securities, is mute as

well on the issue of innovations in this particular area of the French capital markets.

While U.S. lenders have been pooling mortgages into debt securities for more than a decade and are now bundling other assets, such as credit card receivables, into new instruments, securitization of mortgages in one form or the other is just now taking place in Canada and Britain, and in a more limited way, in France. The method requires major lenders to home owners here to bundle like mortgages together, back them with a guarantee of sorts to assure creditworthiness and create debt instruments that can be traded in the bond market.

"The financing concept took 15 years to

cross the Atlantic, and now the question is how long will it take to cross the Channel," said Didier Negrier, a manager at McKinsey & Co., the management consulting firm, at its Paris office.

The single-family housing market was the stimulus that led to the explosive growth of asset securitization in the United States, which mushroomed to \$270 billion last year. Most of these securities were collateralized by mortgages and developed as a way for banks and thrifts to raise funds and disperse the risks of lending to homeowners.

In France, however, the \$46 billion mortgage market is heavily subsidized by the government, which directly underwrites the mortgage

loans made by most banks, thrifts and specialized lenders here. But the deregulation of the French banking sector is creating a new competitive environment, one in which its players are becoming more concerned with ways to manage interest rate exposure on their balance sheets. Asset-backed securities can allow a bank or thrift to transfer what had been its risk to the investor in those securities and relieve its balance sheet at the same time.

For France, the time is ripe for such innovations due to the changes sweeping over the banking industry. A major shake-up has been created by the development of new instruments and markets, like commercial paper and certificates of deposit, that have allowed major

French corporations to go directly to the capital markets for funds and bypass banks completely.

A drop in their traditional source of funds is leading more French banks to look at alternatives, and the type of off-balance sheet financing offered by asset securitization, may be the norm in five years or so, said one expert.

"I could see it then, as banks are becoming more capital-ratio conscious," said Philippe Masson, a principal of McKinsey in Paris. Moreover, several of France's largest national banks are also being privatized, which also changes their profit motives.

But bankers say the factor looming largest on the horizon for French authorities is 1992.

when all the barriers that separate the financial services markets in the European Community countries are to be swept away. That is giving banks here more incentive than ever to become competitive with their international counterparts.

McKinsey, for one, has been studying what profound changes this is having on the French financial community.

"We're looking at how the mortgage-backed market developed in other countries, what financial and regulatory changes must be accomplished," said Mr. Masson.

LINDA KESLAR is a financial journalist based in New York.

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## Companies Discover World Equity Market

**P**ARIS — The world is wooing French equities these days. While the Chirac government's privatization plan will increase the market capitalization of the Paris Bourse by an estimated 25 percent, heightened international investor demand is also leading many French companies to directly offer their shares abroad for the first time.

Although the size of these corporate flotations has been relatively small compared to the mammoth offerings by French government-owned companies going private, the trend toward international tranches in equity offerings by French companies is catching on. Some companies are even selling their shares exclusively to foreigners.

"We're talking to more and more French corporate managers about tapping into the international equity markets," said Danielle Kadevan, an equity analyst who follows the French markets for Salomon Brothers in London. "The French market is no longer isolated." Opening up corporations to the global markets will give them more leverage in financing, she said.

Official estimates place foreign ownership at about 15 percent of the \$3 billion market capitalization of the French Bourse, and an even greater proportion of French equities held by foreigners outside of France. That is giving foreign investors considerable influence over French companies, some of which have as much as a quarter of their capital now held abroad. And that number is growing.

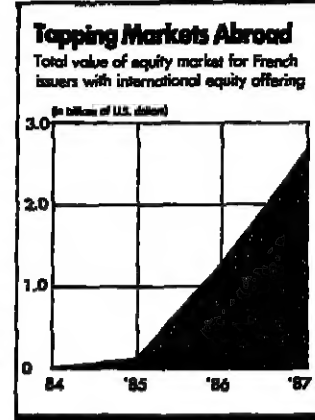
"It's a matter of the French markets becoming more internationally integrated," said Tanguy Lidouello of Lazard Freres in

Paris. "It's becoming essentially a bigger market and more liquid."

The underdevelopment of the French stock market has kept internationalization at bay until recently, since it is hard to convince foreigners to buy stock if there is a weak home base to sell back into.

However, with the sweep of privatizations, many of which have sold portions of their offerings directly to investors abroad, the Bourse is thriving, with trading volume up 50 percent for the first six months of this year. So much so that some private sector companies first approached international equity financing for fear that the privatizations would saturate investor demand in the Paris markets.

If anything, the contrary has been true. "The French market is strong, regardless of privatizations," noted Ludovico del Balzo,



an executive director of Shearson Lehman Brothers in London. All the same, the large scale of the privatizations has certainly helped. Compagnie Generale d'E-

lectricite, the telecommunications group, for example, issued the largest French offering ever and was worth about \$1.06 billion, 20 percent of which was sold to British, German, Swiss, American and Japanese investors through a separate international stock syndicate.

By comparison, the international flotations by the French corporate sector have been noteworthy more for their incidence than size. Peugeot, the French carmaker, for example, sold more than half its 2.375 billion new shares worth \$395 million directly to foreign investors this summer by syndicate the stock globally through a wide range of investment banks. The shares retailed for \$166 apiece, and it marked the first time the company targeted a stock offering to investors outside France.

While, the internationalization of ownership of French companies

is a positive trend, it could lead to some unwelcome changes. For one, said Ms. Kadevan of Salomon Brothers, French companies have had to wake up to the uncomfortable fact that they can now become targets of hostile bids from both French and international raiders. "French management do not have the same kind of control with their shareholder bases broadening," she said.

But it also gives companies more potential spending power to make acquisitions themselves. "There could be an accelerating trend of French companies buying other foreign companies through stock offerings," she said. This could lead to some mammoth cross-border combinations, since, before now, corporations' means of raising cash were more limited, she added.

Linda Keslar

## Bankers Hone Bid for EC Leadership

Continued from page 7

extra 17 billion francs in provisions, raised a further 3.5 billion francs in equity this summer. Yet, those giant efforts may not be enough. Figures of the Organization for Economic Cooperation and Development still suggest a capital deficit of 1 percent to 1.5 percent on total assets or 75 billion francs more to be raised in equity.

An extreme case is the "green bank," the Caisse Nationale de Credit Agricole, with less than \$1 billion in equity against total assets exceeding \$100 billion. About to be sold by the state to 94 regional cooperatives, its AAA credit rating is at stake for lack of adequate capital resources, and that could make a serious dent in profits.

The catch-22 for French bankers is to beef up their "resistance capacity" while building a large treasury chest to fund their European drive, which can only be tackled through mergers, acquisitions and equity alliances rather than by multiplying branches abroad.

Two outsider groups emerging from the Paribas empire of 1981, the London-based Pallas Group of Pierre Moussa and the Brussels stronghold of Fargues led by Albert Freres, are showing the way.

But to attract more capital, banks need to improve their profits. Poor productivity and low return on capital kept the French trailing way behind other European countries through the 1980s. Compared to British banks, return on assets were six times lower and productivity about half.

One reason lies in the rigid policies imposed since 1974 by the state on credit growth and market shares. The result was an above normal reliance on highly volatile and short-term interbank funds, accounting for 50 percent of balance sheets against international norms of 10 percent to 20 percent.

This is why privatization had such meaning in France. Although the Banking Commission claims that it would never allow a bank to fail, the whole quality of massive interbank loans could suddenly be questioned abroad, espe-

cially when such leverage proved to be so expensive.

Despite a strong comeback in 1986, when profits surged five times, Banque Worms threw away 203 million francs on its net interbank and money market dealings. Credit Commercial de France (CCF) as well had to wipe out 1.6 billion francs while the huge Paribas, downgraded to an AA+ rating, had to cover 11 billion francs.

But things are changing, and interbank window dressing is now giving way to tougher bottom-line criteria. This, in turn, is signaling a major shift in correspondent banking policies with a stress put on relationship profitability. Among the most advanced is certainly Credit Lyonnais, using six different and integrated data bases to monitor relations with up to 3,000 institutions worldwide.

Less interbanking, a virtual hiring freeze, lower taxation (down to 45 percent) and booming capital gains lifted net profits by 40 percent last year for the top six commercial and investment banks.

What really saved banks from a crunch in corporate credits over the last two years was surging noninterest income, now exceeding 33 percent.

Short-term commercial and equipment loans fell by 6 percent last year as a result of a dramatic improvement in corporate self-funding. A survey conducted by SAFE, a top research house, shows that 49 industrial groups earned about 1.5 billion francs on their financial dealings, a gain of 30 percent over 1985. Thomson-CSF, the major military hardware group, earned more money out of finance (1.9 billion francs) than from its industrial activities.

Aside from going retail and squashing margins on corporate loans, the only alternative left was to start investing directly in bonds and shares or to manage third-party portfolios.

Since 1985, direct portfolios held by banks affiliated to the AFB more than tripled to 162 billion francs and exceeded all their shareholders' equity. A good case is the CCF, which is expected to post a group profit of 540 million francs in 1987, due largely to 250 million francs worth of capital gains.

However, direct portfolios are only the tip of the iceberg. Over the last year and a half, total assets of mutual funds (SICAVs and FCFs) zoomed to 1 trillion francs, or the equivalent of about all clients' deposits held by all AFB members. Most of those funds are managed by banks, with about 40 percent locked in the hands of the top seven.

The Banque Federative du Credit Mutuel de Strasbourg shows what underground banking means. Beside 40 billion francs of deposits, the whole group (with local co-op branches) gathered 25 billion francs of funds in its region and managed most of the 70 billion francs of securities generated by the rest of the Credit Mutuel network across France.

At the other end, Paribas was managing worldwide 164 billion francs of funds for three parties, more than all its clients' deposits, plus another 51 billion francs of securities held directly. No wonder that it could boost 13 billion francs in unrealized capital gains last year on top of a shareholders' equity worth 26 billion francs.

The question is how much longer such heavy exposure to securities markets will go on yielding fat profits. With disinflation ending the boom on local stock and futures markets, hundreds of banks are already feeling the squeeze.

"Our experience is quite significant," said Mr. Moulard of the Lyonnaise de Banque. "Sixty percent of our management efforts are now geared toward market risks instead of credit risks." And he reckoned that nearly 30 percent of his staff needs to be retrained.

Throughout the industry, the recycling figure may be much higher and could involve over 150,000 people recruited in the 1970s, mostly as tellers. Although each bank spends on average 3 percent to 4 percent of its payroll on training programs, only 40 percent of new recruits last year had university degrees in banking, against 100 percent in Japan and 80 percent in Sweden.

ROBERT POULIOT, head of Capital Intelligence, a bank rating group based in Geneva and operating in Europe, the Middle East and Asia, writes on international banking.

## Chirac Government Pushes Privatization

Continued from page 7

came up with industrial companies rather than another bank," he said.

Another criticism is that Mr. Balladur, anxious to free capital to carry out other policies and obtain results well before next April's presidential election, in which Mr. Chirac is expected to run, has privatized too much, too quickly for a Bourse that has never rated among the world's leading stock markets.

At times, analysts say, the extra stock flotations have played a part in an overall stagnation of French stocks.

In the spring, when prices slumped heavily on the Bourse, "there was a lot of money in play," one banker said. "Five companies were being privatized at the same

time and this took a lot of money out of the market. People were not interested in the normal stocks."

The government's aim, apart from restoring to the private sector companies what its Socialist predecessor had nationalized after taking power in 1981, is to invest the money in other sectors to boost the economy and reduce unemployment.

Since the summer vacations ended, the government has announced reductions in value-added tax on records, cassettes and automobiles and a 3 percent cut in income tax next year.

Although such measures have an obvious political motive in a pre-election period, they were welcomed in the industries concerned.

One flaw in the early privatizations was an absence of measures

to ensure that investors would receive manageable numbers of stocks.

To protect the small investor, all requests for stock were satisfied, meaning that Paribas, for example, issued four shares to each investor whereas the Banque des Travaux Publics issued only one.

In the case of BTP, the original share price of 130 francs (\$22) has only increased by 10 percent, meaning that, if stockholders sell, the gain is lost in bank commissions.

The privatized companies face the prospect of huge expenses as they send company results to each and every investor.

For the banks or brokers who hold the shares, it has meant that they are in charge of portfolios whose shares can literally be counted on the fingers of one hand.

To deal with this problem, the banks have proposed setting up SICAVs, or mutual funds, to group all the privatized stock and give small investors their proportion of the new funds.

However, Mr. Balladur has said that after this month's privatization of the Compagnie Financiere de Suez, the government would draw up legislation to establish "family accounts" that would group all shares held by members of one family, thus leaving the original stocks in investors' hands and preserving the new class of small investor that he hopes is here to stay.

The most damaging controversy surrounding privatization has Mr. Balladur himself as its target.

In planning the denationalizations, the government provided for the creation of the hard cores of institutional investors who undertake to buy and hold a certain

percentage of stock for a fixed period to protect the companies involved from stock market raiders.

In most cases, around 20 percent of a company's capital has been sold to such investors. For Suez, it was 30 percent.

Last month, the Socialist Party published a "black book" accusing the government of favoring its cronies in big business when distributing such stock, a practice that former Culture Minister Jack Lang dubbed "chiracism."

Press reports have said that such privileged treatment has been meted out to the Lyonnaise des Eaux, whose chief executive is Jeanne Monod, a former secretary-general of Mr. Chirac's Gaullist Rally for the Republic. Other names have included an associate of Mr. Balladur's brother-in-law and the godfather of one of Mr. Chirac's daughters.

Several bankers say they also perceive favoritism in the way shares were distributed to the big investors. "Lyonnaise des Eaux does seem to be a little overpriced," one said.

In addition, supporters of former Prime Minister Raymond Barre, who is almost certain to be the Union for French Democracy's presidential candidate, have alleged that state-owned companies headed by Mr. Barre's sympathizers have often been passed over for privatization in favor of firms headed by known Gaullists.

Mr. Balladur, who has promised to reply in detail to the charges, has dismissed the issue as a political maneuver to discredit his policies ahead of the election.

JULIAN NUNDA is on the staff of the International Herald Tribune.

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## Stock Market ■ Currency

## Sluggish Bourse Hopes for Better Days

'We're in a period of slow growth and we will remain there for a long time.'

By Jacques Neher

**P**ARIS — Although the stock market index may not show it, 1987 is shaping up as an interesting year for the Paris Bourse.

A wave of privatizations, much improved corporate earnings, lower inflation, recent innovations such as futures and options trading, and the promise of legislation that will break the trading monopoly held by 45 Paris brokers is breathing new life into France's equity markets, market observers say.

"I am convinced that the Paris Bourse has very beautiful days ahead of it," Jean-Claude Trichet, director of the French Treasury, told the French magazine *Le Point* recently.

Despite this outlook, the stock market itself has had a bumpy 1987, particularly when seen against the markets in London, Tokyo and on



Edouard Balladur.

increased 38 percent; and New York's Dow Jones index climbed 36 percent.

Since then, rising interest rates in the United States and the sudden plunge on Wall Street over the past two weeks has taken a further toll in Paris. By last Friday's close, the CAC registered 369.6 — about 7 percent below the start of the year.

Market observers blame the relatively large decline at the Paris Bourse on higher real interest rates and skepticism over the French economy. Though economists a year ago were projecting economic growth in 1987 of 2.5 percent or more, most have now downgraded those estimates to less than 1.5 percent. The outlook for 1988 is not much better.

"We're in a period of slow growth and we will remain there for a long time," predicted Gabriel François, senior vice president and chief economist of Banque Nationale de Paris.

Another explanation for the index's decline, one broker said, is that "the privatization issues have diverted money that might otherwise have gone into the other major stocks that make up the index."

Indeed, the first 11 privatizations by the government since last December have siphoned 63.3 billion francs from the market, with 36.9 billion francs of that figure coming from French individuals and institutions, and the rest from foreign institutions, according to a study by London broker, James Capel & Co.

The privatizations, which have raised 51.6 billion francs for the government, have drawn an estimated 4 million individual investors into the French stock market for the first time, bringing total individual stock holders to some 6 million.

Wall Street over the first three quarters. The CAC general index, which soared 48.5 percent in 1986 — and 340 percent since 1985 — this year has gone mostly sideways.

The CAC finished September at 410, up only 3 percent from the start of 1987.

In the same period, London's FT Ordinary index rose 41 percent; Tokyo's Nikkei index

The privatization issues as a group had appreciated by about 20 percent through September, according to the study, but by the end of last week most of those gains had been wiped out. Nevertheless, the first company privatized, the glass and insulation group Saint-Gobain, was still up 58 percent over its initial offering price.

Looking ahead to 1988, a new round of privatizations, plus projections for robust corporate earnings, may provide a fresh surge of energy at the Bourse, observers say.

The minister of finance, economics and privatization, Edouard Balladur, said recently that the government expects to float at least 100 billion francs in additional state-owned stock over the next six months. Among the privatization issues, Mr. Balladur said, will be the giant insurance groups UAP and AGF.

Presidential elections next May could cause market jitters next spring, "but after that we could see one hell of a rally," said a London broker, noting that significant earnings improvements by French companies have not been reflected by increases in stock prices.

At the end of September, the price-earnings ratio for the top 30 companies on the Bourse was around 14, but prices were only 12 times 1988 projected earnings and 10 times 1989 projections, according to the James Capel study.

Meanwhile, a flood of new issues is washing over the Second Marché, a secondary market established in 1983 for smaller and medium-sized companies. Investors seeking new issues this fall have a wide choice — everything from little-known software developers like Société

Privatized Companies:  
How Their Stocks Have Fared  
(in French francs per share)

| Stock            | Launching Price | High 1987 | Closing Oct. 16 |
|------------------|-----------------|-----------|-----------------|
| B.T.P.           | 130             | 177       | 136.50          |
| B.I.M.P.         | 155             | 200       | 190             |
| C.C.F.           | 107             | 153       | 116.50          |
| C.G.E.           | 290             | 347.10    | 300.20          |
| Havas            | 500             | 550       | 520             |
| Paribas          | 405             | 524       | 407             |
| St. Gobain       | 310             | 524       | 502             |
| Société Générale | 407             | 437       | 412.10          |
| Sogeval          | 125             | 174.50    | 130             |
| TF 1             | 165             | 210       | 192             |

Concept to world-renowned perfume and high-fashion house Yves St. Laurent.

"I expect perhaps 50 new admissions on the Second Marché in Paris and the provinces in the last quarter," said Florence Hernandez, an official in the new-issues office of the Paris Bourse. That would bring to around 275 the number of companies quoted on the Second Marché, including issues traded on the smaller regional French markets in Bordeaux, Lille, Lyon, Marseille, Nancy and Nantes.

At the start of 1986 the Second Marché comprised 127 stocks with a combined capitalization of 58.3 billion francs. As of July 30, the market held 216 stocks with a combined capi-

talization of 148 billion francs — 10 percent of the total equity capital on the Paris Bourse.

Meanwhile, institutions have taken a liking to the MATIF futures market. Contract purchases on the 19-month-old MATIF have hit record levels, often surpassing London's futures market.

And though delayed three months by technical difficulties, trading on three stock options got off the ground this fall and market observers see it taking off in the year ahead.

JACQUES NEHER, a journalist based in Paris, is a regular contributor to the *International Herald Tribune's* financial pages.

## Vulnerable Franc Fears the Exchange Fallout of a Tottering Dollar

By Ken Ferris

**L**ONDON — The French franc's position at the top of the European Monetary System (EMS) has enabled Prime Minister Jacques Chirac's government to press ahead with its program to liberalize all exchange controls by 1992. But the gradual removal of the franc's protective shield has left the currency open to speculative attack and is likely to result in increased intervention and more volatile interest rates should Paris need to defend it against devaluation pressures.

The likelihood of a franc adjustment against its European Currency Unit (ECU) central rate is limited, given the approach of the presidential election next May. Nevertheless, the prospect of a further decline in the dollar raises the specter of a flight of capital into the Deutsche mark and a buildup of pressure for a general EMS realignment. That would probably include a 3 percent to 4 percent upward adjustment of the mark versus the ECU and an effective devaluation of the franc against the German currency.

The French unit needs to be realigned vis-à-vis the mark to compensate for the inflation

differential between the two countries since the last EMS reshuffle on Jan. 12 this year.

On that occasion, a dispute between Paris and Bonn over who should take responsibility for pressures on the weaker EMS currencies resulted in a 3 percent revaluation of the mark and Dutch guilder and a 2 percent upgrading of the Belgian/Luxembourg franc. The French franc, along with the other currencies in the Exchange Rate Mechanism (ERM), remained unchanged against their ECU central rates.

January's EMS realignment was the 11th since the ERM replaced the "snake" in 1979 and the first since the general reordering of parities in April 1986. It was immediately followed by speculation that there would be another adjustment within six months.

However, the success of February's Louvre accord, which was signed by the Group of Six major industrial countries — the United States, West Germany, Japan, Britain, France and Canada — in stabilizing the dollar has taken the pressure off fundamentally weak EMS currencies and enabled them to remain within their ECU divergence limits.

Indeed, despite intervention by the Bank of France to slow the mark's appreciation in mid-September, the strength of the French currency in the EMS has allowed Paris to slow the rise in

French interest rates in response to the recent tightening in German monetary policy. While the six-month mark Euro-deposit rate has risen three-quarters of a percentage point to 5 percent since early September, the six-month French franc Euro-deposit rate has edged up only a quarter of a percentage point to 9 percent.

The question that now looms large for the franc is how much longer central banks can hold the dollar steady in the face of the huge trade and budget imbalances in the United States and the comparable trade surpluses in West Germany and Japan. If the dollar does start to slide (the International Monetary Fund warns that a 15 percent to 20 percent decline may be needed), high interest rate EMS currencies, including the French franc, will face overwhelming selling pressure from speculators in anticipation of a realignment of the EMS.

In presenting his draft budget on Sept. 16, the French minister of finance, economics and privatization, Edouard Balladur, said inflation would be only 2 percentage points higher than in West Germany by the end of this year, and he targeted a differential of only 1 percentage point by the end of 1988.

However, the actual inflation rate (3.5 percent in August year-on-year) is currently run-

ning a full 1 percentage point above official forecasts, and many analysts believe the target of 2.5 percent by the end of next year is optimistic.

The continued erosion of French competitiveness is reflected in a deterioration in this year's balance of payments. The trade account is set to return to deficit this year after balancing in 1986: The 23.8 billion franc (\$3.96 billion) January-August trade shortfall contrasts sharply with the 900 million franc deficit in the same period of 1986. The national statistics institute, INSEE, expects a 20 billion franc full-year deficit compared to initial government hopes of a 1 billion franc surplus.

The problems faced by France in competing against its main European trading partners have encouraged the government to pursue a supply-side fiscal policy that involves cuts in corporate and income taxes and the budget deficit. September's budget provides for a 2 percentage point cut in corporate taxes to 43 percent and reductions in indirect taxes on business, while personal income tax is to be cut by 3 percent in most brackets.

The package is worth 31.8 billion francs, though the personal tax savings are to be reduced by the introduction of a series of levies

to help cover the 33.6 billion franc social security deficit.

Despite the range of tax reductions, the budget deficit is still expected to fall to 115 billion francs (2.1 percent of gross domestic product) in the 1988 fiscal year from this year's 129 billion francs due to buoyant tax receipts and proceeds from the accelerated privatization program.

Privatization receipts have already reached 52 billion francs this year, compared to the 30 billion originally forecast, and another 50 billion francs is expected next year.

Mr. Balladur has emphasized that France must continue to pursue its policy of simultaneously reducing taxes and the budget deficit until 1992, the date set by the European Community for the elimination of all internal trade barriers.

The challenge of competing in a unified European market means France should cut its budget shortfall by an annual 15 billion francs and further reduce corporate taxes and value-added tax (VAT) to sharpen the competitiveness of French companies, Mr. Balladur said.

These long-term plans to reinvigorate the economy aim to pave the way for further tax and exchange control liberalization ahead of the 1992 deadline under the so-called Delors

Plan. But, with political worries likely to increase as the presidential election approaches, the French authorities may wish they had retained some of the exchange restrictions already phased out if the franc is subjected to speculative pressure.

Mr. Balladur introduced a package of liberalizing measures in May, which means that French companies (but not citizens) are now allowed to open foreign currency accounts in France or abroad and to borrow freely in foreign currency or French francs. However, the package stopped short of relaxing the prohibition on French banks' lending overseas and on individuals opening foreign currency accounts. The government felt that the franc would be exposed to speculative pressure if those two main restrictions were relaxed.

The problem for Mr. Chirac's government is that, under the Delors Plan for the free movement of capital within the EC, the removal of these two remaining principal exchange controls must be achieved by the end of this year. If the authorities comply with that timetable, the franc will probably come under pressure on the foreign exchange markets.

KEN FERRIS is the editor of *EuroMoney Treasury Report*.

## FURTHER PROGRESS

CREDIT LYONNAIS GROUP consolidated interim results for the six months to 30 June 1987

(million FRF)

| PROFIT AND LOSS  | Half of 1986* | Six months to 30 June 1987 | % Growth |
|--|---------------|----------------------------|----------|
| Gross operating profit   | 13,219        | 14,123                     | + 6.8    |
| including net commissions  | 2,615         | 3,152                      | + 20.5   |
| Operating income   | 4,520         | 5,197                      | + 15.0   |
| Net operating provisions   | 3,705         | 3,362                      | + 8.3    |
| Net income (group share)   | 910           | 1,191                      | + 30.7** |
| * Comparison with one half of the 1986 full year figures is felt to be the most valid as, for the first time, the results for the six months to 30 June 1987 have been prepared using procedures similar to those employed at the year end.                  |               |                            |          |
| ** Growth in net income, excluding exceptional items, is 16.5 %. The exceptional items consist of capital gains realised on the disposal of certain investments less additional provisions for pensions and costs incurred in repurchasing high coupon debt. |               |                            |          |
| BALANCE SHEET  | 30 June 1986  | 30 June 1987               | % Growth |
| Gross customer loans   | 347,978       | 368,906                    | + 6.0    |
| Equity (including first half results)  | 15,803        | 19,264                     | + 21.9   |
| Perpetual subordinated debt  | 3,500         | 5,500                      | + 57.1   |
| Provisions   | 24,804        | 29,677                     | + 19.6   |
| - of which country risk provisions   | 10,580        | 13,435                     | + 27.0   |
| - percentage of country risk coverage  | 30.2 %        | 38.4 %                     | -        |
| Equity + equity equivalent + provisions  | 12.68 %       | 14.76 %                    | -        |
| Gross customer loans   |               |                            |          |

During the first six months of 1987, Credit Lyonnais has continued to make progress in its various fields of activity. In France, it has increased facilities both to individuals (up by 27 %) and to businesses (up by 4.1 %), has achieved a very pleasing increase of 7.7 % in the level of French franc client deposits (excluding certificates of deposit), and has seen further expansion of its activities in the financial markets. Net commissions have increased by 18.3 %. At the same time, the contribution to operating income of the overseas network has increased strongly, with a contrast between branch offices, whose results as a whole are down, and the major subsidiaries having the advantage of a substantial presence in their country of operation, which have in general shown strong growth in profits.

The first half of 1987 has also been notable for the various steps taken by Credit Lyonnais to reinforce its presence in the financial centres of London, New York, Tokyo and Frankfurt.



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# Herald Tribune

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## Don't Panic, but Act Now

While it is not a disaster and it is not irreparable, the long fall of the stock market last week changes the atmosphere in which people deal with money. There is now a sense of vulnerability and fragility that did not exist before last Wednesday. It happened for reasons related to the twin deficits — the U.S. budget deficit and foreign trade deficit — and the fear that, because of them, interest rates will go higher. Nothing dramatic had happened that day. It was a slow accumulation of small warnings over many months until, as often happens in speculative markets, one final piece of bad news, the figures for one month's trade deficit, suddenly reversed a consensus.

Comparisons with 1929 are inevitable. But remember that the market, from the high point Aug. 25 until now, has dropped less than half as far as it did from September to November 58 years ago. Much more important, keep in mind the fundamental differences in circumstances. A severe recession had started in August, 1929. Although the crash undoubtedly aggravated the recession, industrial production and incomes had been falling rapidly for two months before the stock market responded. But the biggest difference is that since then the American financial system has been substantially panic-proofed. The wildfire panics that were a regular part of economic life in America from the Civil War to the Depression have not recurred since then. Government policy cannot stop a slide in stock

prices. But it can prevent the slide from generating other kinds of damage such as sudden credit droughts and bank failures. The United States has absorbed the lessons of the Depression, and whatever happens next, it will not be the kind of contagious fear and misconceived public policy that led to the misery of the 1930s.

While America has now got itself into real economic trouble, it is a very different case from 1929. There is no recession. To the contrary, prosperity is running a bit too high and Americans are running up ominously large debts. The creditors, mainly European and Japanese, are becoming reluctant to keep lending. That is why interest rates are rising. The stock market is serving as an early warning system, picking up signs of stress that most of Washington has not felt yet. There is one thing that the White House and Congress must do, and quickly. They must settle their quarrel over this year's budget and demonstrate to America's skeptical creditors abroad that they will keep shrinking the deficit. There will not be another crash à la 1929. But if interest rates keep rising because foreigners have decided to stop lending, the United States is in for some harsh lessons on living within its means. A drop in the stock market would be only the beginning. The question is not whether Americans are smart enough to avoid the dangers of 1929, but whether they can foresee the very different dangers of 1987.

— THE WASHINGTON POST.

## Yes to a Golden Basket

The U.S. Treasury secretary, James Baker, set pulses racing at the recent World Bank meetings by suggesting that international financial policies be guided in part by the price of a "basket" of commodities, including gold. It is not a bad idea.

Talking up gold may sound like a way to score political points among conservatives for George Bush, Mr. Baker's friend and favorite presidential candidate. But Mr. Baker's purpose is surely larger and the problems he addresses are deeper. There can be no magic formula for coordinating policies to stabilize prices and exchange rates. But Mr. Baker's proposed commodity inflation indicator could prove useful.

Under the gold standard that evolved in the 19th century, each participating nation's supply of money was backed by gold. When one country bought more goods abroad than it sold, gold would flow out in payment. The resulting squeeze on the domestic money supply would automatically correct the tendency toward profligacy.

And since the world's total amount of gold — and thus money — was limited, a gold standard provided an automatic check against inflation. Indeed, America's return to a precious metal standard after the Civil War precipitated a long, slow decline in prices.

A true gold standard would not be practical today. Gold may offer the illusion of stability but the amount available to back currencies could change rapidly. No government would make its money supply dependent on the two leading gold producers,

South Africa and the Soviet Union. And even if some governments were willing, there is probably no longer any way to link the supply of money to the amount of precious metal held in vaults. Businesses would create private substitutes.

The Baker option is far more modest. Basing the standard on a basket of many commodities would eliminate the problem of dependence on a single, arbitrarily designated commodity. No country, moreover, would be asked to increase or decrease its money supply automatically to maintain the buying power of its currency. Meanwhile, a broad international commodity price index might usefully signal the right direction for domestic monetary and fiscal policies — and offer an objective standard for international comparison.

The West Germans worry about inflation more than anyone. This fear keeps them from boosting economic growth now, when U.S. growth is slow and likely to get slower. Bonn argues that any inflation rate above 2 percent is unacceptable to German voters. But it might be more inclined to respond if the international commodity price index, measured in Deutsche marks, were falling.

It is difficult to construct a workable index of commodities. But a highly visible index could at least serve as a talking point in ongoing negotiations over international policy coordination. Even small steps toward the recognition of economic interdependence would be welcome.

— THE NEW YORK TIMES.

## Air Delays: Stop Meddling

What began in the House of Representatives as a sensible response to outrage over air travel delays has turned into meddling. Air travelers as well as airlines ought to hope for greater wisdom from the Senate.

The bill started as a commendable effort to make U.S. airlines disclose on-time records, numbers of complaints about lost baggage and other data to guide consumer choice. But members of the House, sensing rising popular anger over air service, began heaping on last-minute provisions.

Some of these provisions were eliminated before the House finally passed the bill, but others made it through. These include, for example, setting capacity levels at the biggest airports, thus limiting departures and arrivals, and forcing airlines to give free tickets to passengers when their baggage is not delivered within certain time limits. Those are costly and clumsy intrusions.

Airport capacity varies with the time of day and could be better managed by manipulating fees for landing rights.

More to the point, airports can be expanded to meet increased traffic, and Congress is partly responsible for the failure to expand. Rather than set limits on airport use, the lawmakers could raise the user fees that feed the Aviation Trust Fund so that the aviation infrastructure can be expanded to pay for itself. Congress also might move the trust fund off the budget and exempt it from cuts under the Gramm-Rudman-Hollings law.

The House bill may be a response to a problem that is already abating. The Federal Aviation Administration recently reported that delays in the July-September period were down 34 percent compared with the comparable 1986 period. All the more reason for Congress to resist the impulse to meddle.

— THE NEW YORK TIMES.

## Other Comment

### That They Too Might Be Free

As the Western democracies have withdrawn from empire, the Communist powers have created new empires, turning independent peoples into colonial satellites. Two current events illustrate this change in roles. [Last week] the leaders of the countries that used to be colonies in the largest empire the world has ever seen gathered in Vancouver to berate the prime minister of the former imperial power for defying their wish to impose sanctions against South Africa. Thousands of miles away the Chinese government was reinforcing its military garrison in Tibet so that it would be in a stronger position to put down demonstrations by the colonial subjects. Western neocolonialism at its worst is nothing compared with the brutal occupation of today's Communist colonialism. Nor is there any sign that their empires will speedily go the way of the old colonialists'. The British, French, Dutch and other empires were disbanded because it became im-

possible to confer democratic rights at home while denying them abroad. That is not a problem for China or the Soviet Union. The sort of liberalizing steps being taken on the home front by Moscow and Beijing will only encourage their colonies to dream that one day they too might be free. The history of the first part of the next century will be largely the history of their struggles.

— The Sunday Times (London).

### The War Powers Threshold

The president and his advisers may gnash their teeth to admit it, but their mission in the Gulf surely has crossed the threshold set forth by the War Powers Act. The administration's protectiveness toward its policy-making prerogatives is understandable. [But it] should sincerely seek out the lawmakers' best counsel and cooperation. It has a case worth making in the Gulf, one that could be improved and refined in that dialogue.

— The Atlanta Constitution.

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## OPINION

# Together, We Can Avoid the Economic Abyss

By W.W. Rostow

lignations arising from prior loans.

Write-downs, rollovers, additional government and some private lending have helped. But they have not been enough to permit developing countries to fulfill their two essential functions in the world economy. One is to achieve the economic growth needed to bring social progress and to meet citizens' demands for democratic politics despite the strains of rapid population growth. The other is to provide an expanding market for sophisticated exports from industrialized nations.

There is a special dimension to the present problem. The United States is now a relatively more open and rapidly expanding market than Western Europe and Japan for exports from developing countries. Virtually all the major exporting nations in those regions have geared their currencies to the dollar. Thus, unlike the Japanese and Europeans, they have not felt the effects of the devaluation of the dollar from its 1985 peak.

But the U.S. trade deficit cannot be sustained indefinitely, so developing countries cannot count on earning large dollar surpluses to pull them out of their trade problems. This must be taken into account in designing a civilized exit from the present trade and capital transfer problem.

Here are the essential components of an international policy that would have a reasonable chance of success:

- Concerted measures should be taken to ease substantially the debt burden of the developing regions.
- Steps are necessary to increase the rate of growth in countries with chronic surpluses, notably Japan and West Germany, accompanied by a reduction of barriers to imports.
- Through bipartisan cooperation, the United States must balance the federal budget. This will permit lower interest rates. And it must accelerate the application of new technologies and maintain wage restraint in the face of inflationary pressures likely to arise from the dollar's devaluation.
- Increased government and private lending to developing regions, including a larger role for the World

Bank and regional development banks, is needed. As America reduces its trade deficit and real interest rates are brought down, the resulting capital inflow to the United States should be diverted to developing regions.

The major economic powers have made progress in some of these areas, and so far they have kept under control the raw, sometimes vicious nationalistic impulses that helped push the world into the abyss in 1929 and thereafter. Memory of those years may again help us in the time ahead.

But the actions by Japan, West Germany, the United States and other countries fail to match the scale and urgency of the problem. The world's leaders risk earning themselves the characterization that Theodore Roosevelt made of the German chancellor's behavior in 1914: "He meant well feebly." Today, the consequences could be equally costly.

The writer, national security adviser to President Lyndon Johnson, is a professor of economics and history at the University of Texas at Austin. He contributed this to The New York Times.



## Still Life of a Great Communicator

By Haynes Johnson

WASHINGTON — For Ronald Reagan, the twilight days of an extraordinary presidency approach. He remains, of course, the immense war and peace powers granted to any American president.

Gravely events in the Gulf demonstrate how great those powers remain. He continues to be influential in world affairs. A chance to achieve a significant arms control agreement with the Soviet Union exists. But in other areas his political powers are waning.

Nothing more dramatically underscores this than Mr. Reagan's role in the increasingly destructive effort to win confirmation for Robert Bork to the Supreme Court.

Future scholars of the Reagan presidency looking for a symbol of how the tide can run on the Reagan era may point to last week, when the three major television networks, ABC, CBS and NBC, refused to broadcast a Reagan speech in which he attempted to rally public support for his nominee by strongly attacking critics of Judge Bork.

Here was the Great Communicator, the quintessential television president whose performance over the years enabled him to win battle after battle by carrying his case directly to the public, effectively struck mute in one of his most important political struggles. The networks had deemed his message unworthy of live coverage.

Even had his speech been broadcast, there is no reason to believe it would have made the slightest difference. The public seems to have turned out Mr. Reagan, just as the Congress increasingly treats him as

irrelevant. Even many Republican right-wingers have distanced themselves from him of late. Predictably, they have fallen to fighting among themselves — and to attacking Mr. Reagan for what many of them view as his too-late, too-late, too-late handling of the Bork defense.

Another incident last week contributed to the sense of Mr. Reagan's growing isolation. It was Labor Secretary William Brock's quiet departure from the cabinet. Mr. Brock, who initially served as the president's first trade representative, is one of the 17 original members of the Reagan cabinet.

Now only two of those are left: the still highly visible and forceful defense secretary, Casper Weinberger, and the still nearly invisible housing secretary, Samuel Pierce. The same dramatic turnover has occurred among the president's senior White House staff. His original team included the "troika" of Edwin Meese 3d, James Baker and Michael Deaver. All are now gone from the White House, as are many other members of that first staff, people like the political adviser Lyn Nofziger and the national security adviser Richard Allen. The problems of Mr. Deaver and Mr. Nofziger, whose criminal trials approach, convey another symbol for the Reagan years — the ethical impropriety affecting many who held high positions during his two terms.

Mr. Reagan stands virtually alone today. The inexorable political countdown has begun. In nine months, the political parties begin nominating their next presidential candidates. Twelve months from now, the next president will be elected. Then Mr. Reagan, too, will be gone. All that will be left is the reckoning on his presidency, and a complicated one it will be.

The Washington Post.

## The Time for Confrontation Is Over

EVEN with his Iran-contra baggage and the Senate in Democratic hands, President Reagan is far from being the traditional lame duck. He has shown his clout in foreign affairs, pursuing an aggressive policy in the Gulf and seeking an arms control accord with Moscow. Recently he struck a useful compromise on military aid for Saudi Arabia, a vital ally.

Some think he can even strike a bargain on the contras if he will settle for sending them nonmilitary supplies. He can certainly influence domestic legislation, notably on health insurance and the trade bill, if he is willing to let his hands in the hard work of negotiating compromises. Mr. Reagan is neither the irrelevant president his opponents would like him to be nor the revered leader whose six years ago pushed Congress into accepting programs they were afraid to oppose. He is in the endgame of his presidency and can prevail only if he accepts his limitations.

— Lou Cannon in The Washington Post.

# Arms Control: It's Much Too Soon to Rest on Our Oars

By Edward L. Rowley

The writer is special adviser to President Reagan on arms control.

WASHINGTON — As Secretary of State George Shultz and his Soviet counterpart, Eduard Shevardnadze, prepare to meet this week, it is appropriate to take stock of what has been achieved in the arms control efforts and what remains ahead.

The two sides are close to agreement on intermediate-range nuclear forces, which for the first time would not simply limit but eliminate an entire class of nuclear weapons. The final

agreement will be a significant political and diplomatic accomplishment. But Americans must not let the tantalizing proximity of an accord blind them to the need to be tough-minded and realistic in three areas: making sure that sound verification proposals are built into any accord, renewing efforts to redress the imbalance in conventional forces, and pressing ahead toward President Reagan's goal of a major reduction in long-range strategic nuclear weapons.

The Soviets may exert enormous pressure to get America to dispense quickly with the remaining details of an INF treaty, particularly provisions of verification, in hopes that the U.S. side will compromise its standards to keep the "process" moving. The Soviets cannot be permitted to entertain any notion that vital verification requirements can be ignored.

The Soviets, of course, are only willing to cut a deal on INF now because America and its allies have

held steadfast to their determination to deploy INF missiles, because America has maintained a clear and firm stance with regard to third-country forces and because of allied determination not to give in to last-minute Soviet roadblocks.

Achievement of an INF agreement now would allow America to concentrate on both ends of the arms control spectrum. Efforts should be redoubled to redress the imbalance in conventional forces. And gaining substantial reductions in strategic arms remains the highest priority.

The conventional imbalance is an important source of military instability between East and West. There is no military or political reason for the huge buildup of Soviet and Warsaw Pact forces in Central Europe. The Soviets keep promising to reduce this imbalance, although it remains to be seen whether they are serious. No Soviet action would do more to convince a skeptical world of a change in Soviet strategic objectives than substantial reductions of these huge forces.

In the meantime, the North Atlantic Treaty Organization must continue to take steps to invigorate and improve its conventional defensive capabilities. A real opportunity exists to cut deeply into offensive strategic nuclear arsenals. In their meetings last month, Mr. Shultz and Mr. Shevardnadze once again reaffirmed their commitment to 50 percent cuts in strategic weapons, which President Reagan has made his highest priority and General Secretary Mikhail Gorbachev has described as the "root problem" of arms control.

Despite this reaffirmation, the Soviets continue to link a prospective accord on strategic arms reductions to an agreement by the United States to check off its research into how to defend against ballistic missile attack. This linkage is unwarranted. Since both sides would gain from a reduction in strategic weapons, there is really no reason to hold such an agreement hostage to severe limits on the U.S. search for strategic defenses.

American negotiators do not have a clear view of the Soviet proposal on defensive systems. Mr. Shevardnadze has proposed alternatives, but the United States cannot accept any that would restrict it to a Strategic Defense Initiative program on Soviet terms, nor one that would subject U.S. research to limits more stringent than those contained in the anti-ballistic missile treaty of 1972, which does not even mention "research."

It must be made clear to the Soviets that the United States will not negotiate crippling limitations on its research in exchange for an agreement to reduce long-range weapons. America approaches the next critical ep-

sode with a clear grasp of its fundamental objectives, an experienced understanding of Soviet negotiating practices and a careful appreciation of both risks and opportunities.

The two sides may be able to reach agreements leading to a more stable, less dangerous world. But Americans must stick with the approach that has gotten them this far and not become euphoric or believe they can rest on their oars. The task of reducing the Soviet military threat has just begun.

The New York Times.

## 100, 75 AND 50 YEARS AGO

### 1887: A War of Rumors

BERLIN — The Berlin air is heavy with military set predicted a war as an unavoidable certainty. Now the same people say that there will be no Franco-German war for five years. At the same time those standing near the Chancellery, and who for the past six months have laughed at the various war scares and assured me they would amount to nothing, are now hinting at war and discussing its possibilities. From persons in the immediate entourage of Count Herbert Bismarck, I hear that the chances of a possible Franco-Russian alliance have recently been thoroughly discussed at the German Foreign Office.

### 1912: Balkan Hostilities

PARIS — Hostilities have commenced between the Balkan States and Turkey, but it is hardly possible to form any clear idea of the military situation. A report by the Belgrade newspapers states that the Serbians have captured Prishtina, about 30 kilometers from the frontier. Constantinople telegrams credit the Turks with having repulsed the Bulgarians at Mustapha Pasha and advanced four hours' march into Bulgaria.

### 1937: He Escaped Titanic

LONDON — Joseph Bruce Ismay, who faced severe criticism for his escape from the Titanic disaster in 1912, died today at the age of 74. At the time the great liner went down, Mr. Ismay was president of the International Mercantile Marine Company, controlling the White Star and other lines. He bore a large share in the criticism, both because of his position with the company and the fact that he escaped by leaping into the last lifeboat that left the sinking liner.



EUROBONDS

Volatility Forces Banks To Be Cautious in Swaps

By CARL GEWIRTZ

International Herald Tribune

PARIS — The debate on the Eurobond market is having a significant impact on the arcane business of swaps, where fixed-rate debts are transformed into floating-rate — or vice versa — or into another currency. Now that the bond market is dead and interest rates in all currency sectors are drifting up, arranging swaps has become riskier.

"Any time market volatility increases, the risk involved in running swap positions increases as well," said Martin Levion, who heads the swap desk at the London office of Salomon Brothers.

What's happening, major players agree, is that the swap market is reverting to the business practices used when it originated four years ago. Financial institutions are once again acting merely as brokers — matching two counterparties eager to swap liabilities.

This replaces the most recent trend where banks were willing to act as market-makers. In effect, banks played the role of one counterparty, warehousing a position on their own books until a customer was found to buy it.

"We're clearly moving back toward brokering," said Michael Rulle, who heads the swap operation of Shearson Lehman Brothers in New York.

This is the result both of the increased volatility in financial markets, which makes it riskier for intermediaries to hold and hedge a position, and the emerging harmonization of banking regulations that will set standards on how much capital banks must use to back up their positions.

Taking a position in an interest-rate swap, banks expect they will be required to set aside from their capital base an amount equal to one-half percent of the principal amount of the position.

Once active as swap counterparties, banks are now acting merely as brokers.

THE RULES expected on currency swaps are more onerous, requiring 5 percent of the principal amount, and activity in that sector has slowed markedly.

Denys Firth, who runs the London swap desk at Morgan Stanley, noted that "the currency swap market has effectively shut down beyond five years. Even up to five years' maturity, he added, "the bid-offered rates have widened," erasing the gains the swap was intended to create.

The liquidity in the largely U.S. dollar interest-rate swap market is still substantial, the experts say. The number and the dollar value of transactions remain high, albeit below last year's peaks.

But even in that market, it is increasingly difficult to find counterparties who want to lock in a fixed rate of interest.

These days, with rates so volatile, both buyers and sellers of fixed-rate debt are shifting to money-market instruments.

Buyers do so out of fear that rates will go higher; they do not want to get locked in to long-term instruments. Debt issuers hope that rates will fall and long-term financing will become less expensive.

In fact, the latest estimate from the Bank of England is that the volume of Euro-commercial paper now outstanding is about \$50 billion, up from an estimated \$30 billion at the end of last year.

Increasingly this apparently is being sold to end-investors rather than bank intermediaries, as trading in Euro-CP is "quite small," said Lionel Price, a Bank official, at a financial markets seminar in Paris last week.

He noted that 95 percent of the Euro-CP facilities announced this year were arranged without any formal backup credit lines, which are designed to assure investors that the issuer will have the liquidity to repurchase the short-term debt.

The big news in the CP market last week was Salomon Brothers' decision to withdraw from the business. The bank was a dealer in some 50 Euro-CP programs.

Competitors say that to be profitable, a bank has to have access to at least 100 programs so that the volume of business is large enough to make up for the paper-thin profits.

Salomon's competitors told anyone who would listen that by walking away from a low-margin business that basically is a service to clients, Salomon risked losing its claim to handle other, more profitable, business.

Salomon officials, of course, said that was nonsense.

Before the firm's competitors decide that riposte, however, they might ponder Mr. Price's comment at the Paris seminar.

Mr. Price referred to the shakeout in London that has seen Midland Bank PLC withdraw from equities trading, Lloyds Bank and Chemical Bank from Eurobond trading and Salomon from commercial paper.

He said the financial services industry appears to be following the pattern of the deregulated airlines and telecommunications industries: first attempting to cover the global market and then retreating to more profitable niches.

Currency Rates

| Cross Rates  |        | Oct. 16 |        |        |          |        |        |        |        |        |  |
|--|--------|---------|--------|--------|----------|--------|--------|--------|--------|--------|--|
|  |        |         | D.M.   | F.F.   | L.M.     | Old.   |        | B.F.   |        |        |  |
| American   | 20.93  | 3.71    | 1.728  | 3.237  | 3.1259*  |        | 5.449* | 1.518  | 1.6229 |        |  |
| France(alt.)   | 21.91  | 65.40   | 26.818 | 1.257  | 26.809*  | 18.936 |        | 10.314 | 1.238  |        |  |
| Germany  | 1.803  | 1.91    | 1.708  |        |          |        | 4.881  |        |        |        |  |
| London   |        |         |        |        |          |        |        |        |        |        |  |
| London   | 3.913  | 3.1430  | 722.0  | 71.30  |          |        | 2.073  | 3.444  | 971.3  | 1.23   |  |
| Paris (alt.)   |        |         |        |        | 3.771.00 |        |        |        |        | 1.23   |  |
| Portugal   | 4.61   | 18.617  | 3.259  |        | 0.625*   | 1.567* | 0.1668 | 22.929 |        |        |  |
| Spain  | 14.25  | 26.822  | 79.48  |        | 0.1294   | 7.919  | 3.7078 |        | 9.954  |        |  |
| Switzerland  | 1.659  | 1.659   |        | 0.2668 | 0.179    | 0.738  | 3.9895 |        | 1.4844 |        |  |
| TURK   | 1.1256 | 0.679   | 2.674  | 4.9229 | 1.49934  | 3.329  |        | 3.228  | 1.7201 | 144.23 |  |
| U.S.D.   | 1.803  | 1.803   | 2.2647 | 7.9993 | 1.8033   | 5.6271 | 4.6531 | 1.9194 |        | 10.524 |  |
| * In London, Tokyo and New York.   |        |         |        |        |          |        |        |        |        |        |  |
| * In Commercial from B. to B. and same; * to B. and same |        |         |        |        |          |        |        |        |        |        |  |



# Weekly International Bond Prices

Provided by Credit Suisse First Boston Securities, London, Tel.: 01-623-1277.  
Prices may vary according to market conditions and other factors.

Oct. 15

## Dollar Straights

| Issuer        | Con  | Mat    | Price | Yld  | Spd  | Yld  | Spd  |
|---------------|------|--------|-------|------|------|------|------|
| Australia     |      |        |       |      |      |      |      |
| Aust Govt 10  | 10%  | 10/10  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 15  | 15%  | 10/15  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 20  | 20%  | 10/20  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 25  | 25%  | 10/25  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 30  | 30%  | 10/30  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 35  | 35%  | 10/35  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 40  | 40%  | 10/40  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 45  | 45%  | 10/45  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 50  | 50%  | 10/50  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 55  | 55%  | 10/55  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 60  | 60%  | 10/60  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 65  | 65%  | 10/65  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 70  | 70%  | 10/70  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 75  | 75%  | 10/75  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 80  | 80%  | 10/80  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 85  | 85%  | 10/85  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 90  | 90%  | 10/90  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 95  | 95%  | 10/95  | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 100 | 100% | 10/100 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 105 | 105% | 10/105 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 110 | 110% | 10/110 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 115 | 115% | 10/115 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 120 | 120% | 10/120 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 125 | 125% | 10/125 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 130 | 130% | 10/130 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 135 | 135% | 10/135 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 140 | 140% | 10/140 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 145 | 145% | 10/145 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 150 | 150% | 10/150 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 155 | 155% | 10/155 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 160 | 160% | 10/160 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 165 | 165% | 10/165 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 170 | 170% | 10/170 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 175 | 175% | 10/175 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 180 | 180% | 10/180 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 185 | 185% | 10/185 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 190 | 190% | 10/190 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 195 | 195% | 10/195 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 200 | 200% | 10/200 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 205 | 205% | 10/205 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 210 | 210% | 10/210 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 215 | 215% | 10/215 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 220 | 220% | 10/220 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 225 | 225% | 10/225 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 230 | 230% | 10/230 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 235 | 235% | 10/235 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 240 | 240% | 10/240 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 245 | 245% | 10/245 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 250 | 250% | 10/250 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 255 | 255% | 10/255 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 260 | 260% | 10/260 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 265 | 265% | 10/265 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 270 | 270% | 10/270 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 275 | 275% | 10/275 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 280 | 280% | 10/280 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 285 | 285% | 10/285 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 290 | 290% | 10/290 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 295 | 295% | 10/295 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 300 | 300% | 10/300 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 305 | 305% | 10/305 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 310 | 310% | 10/310 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 315 | 315% | 10/315 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 320 | 320% | 10/320 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 325 | 325% | 10/325 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 330 | 330% | 10/330 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 335 | 335% | 10/335 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 340 | 340% | 10/340 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 345 | 345% | 10/345 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 350 | 350% | 10/350 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 355 | 355% | 10/355 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 360 | 360% | 10/360 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 365 | 365% | 10/365 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 370 | 370% | 10/370 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 375 | 375% | 10/375 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 380 | 380% | 10/380 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 385 | 385% | 10/385 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 390 | 390% | 10/390 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 395 | 395% | 10/395 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 400 | 400% | 10/400 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 405 | 405% | 10/405 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 410 | 410% | 10/410 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 415 | 415% | 10/415 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 420 | 420% | 10/420 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 425 | 425% | 10/425 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 430 | 430% | 10/430 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 435 | 435% | 10/435 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 440 | 440% | 10/440 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 445 | 445% | 10/445 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 450 | 450% | 10/450 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 455 | 455% | 10/455 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 460 | 460% | 10/460 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 465 | 465% | 10/465 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 470 | 470% | 10/470 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 475 | 475% | 10/475 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 480 | 480% | 10/480 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 485 | 485% | 10/485 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 490 | 490% | 10/490 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 495 | 495% | 10/495 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 500 | 500% | 10/500 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 505 | 505% | 10/505 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 510 | 510% | 10/510 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 515 | 515% | 10/515 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 520 | 520% | 10/520 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 525 | 525% | 10/525 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 530 | 530% | 10/530 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 535 | 535% | 10/535 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 540 | 540% | 10/540 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 545 | 545% | 10/545 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 550 | 550% | 10/550 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 555 | 555% | 10/555 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 560 | 560% | 10/560 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 565 | 565% | 10/565 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 570 | 570% | 10/570 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 575 | 575% | 10/575 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 580 | 580% | 10/580 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 585 | 585% | 10/585 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 590 | 590% | 10/590 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 595 | 595% | 10/595 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 600 | 600% | 10/600 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 605 | 605% | 10/605 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 610 | 610% | 10/610 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 615 | 615% | 10/615 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 620 | 620% | 10/620 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 625 | 625% | 10/625 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 630 | 630% | 10/630 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 635 | 635% | 10/635 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 640 | 640% | 10/640 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 645 | 645% | 10/645 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 650 | 650% | 10/650 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 655 | 655% | 10/655 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 660 | 660% | 10/660 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 665 | 665% | 10/665 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 670 | 670% | 10/670 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 675 | 675% | 10/675 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 680 | 680% | 10/680 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 685 | 685% | 10/685 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 690 | 690% | 10/690 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 695 | 695% | 10/695 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 700 | 700% | 10/700 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 705 | 705% | 10/705 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 710 | 710% | 10/710 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 715 | 715% | 10/715 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 720 | 720% | 10/720 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 725 | 725% | 10/725 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 730 | 730% | 10/730 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 735 | 735% | 10/735 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 740 | 740% | 10/740 | 101.1 | 10.1 | 10.1 | 10.1 | 10.1 |
| Aust Govt 745 | 745% | 10     |       |      |      |      |      |



## New International Bond Issues

Compiled by Laurence Desvillettes

| Issuer                            | Amount (millions) | Mat. | Coup. % | Price   | Price and week | Terms   |
|-----------------------------------|-------------------|------|---------|---------|----------------|---|
| <b>FLOATING RATE NOTES</b>        |                   |      |         |         |                |   |
| TMC Mortgage Securities 4         | £ 100             | 2015 | 10      | 100     | —              | Over 3-month Libor until 1997, and 1% over thereafter. Average life 5 to 7 years. Fees 0.40%. Denominations \$10,000.   |
| <b>FIXED-COUPON</b>               |                   |      |         |         |                |   |
| Merrill Lynch                     | \$100             | 1989 | 10      | 101     | —              | Noncallable. Fees 1 1/2%.   |
| Toronto Dominion Bank (Cayman)    | \$200             | 1989 | 9 1/4   | 101     | —              | Noncallable. Fees 1 1/2%.   |
| African Development Bank          | DM 200            | 1994 | 7       | 100     | 98.00          | Noncallable. Fees 2%.   |
| China                             | DM 300            | 1992 | 6       | 100     | 97.45          | Noncallable. Fees 2%.   |
| Finland Export Credit             | £ 50              | 1993 | 10 1/4  | 101 1/4 | —              | Noncallable. Fees 1 1/2%.   |
| First Austrian Bank               | CS 75             | 1989 | 11 1/4  | 101 1/4 | —              | Noncallable. Fees 1 1/2%.   |
| Nippon Telegraph & Telephone      | CS 100            | 1992 | 11 1/4  | 101 1/4 | —              | Noncallable. Fees 1 1/2%.   |
| ANZ Banking Group                 | Aus\$ 50          | 1990 | 13 1/4  | 101 1/4 | —              | Noncallable. Fees 1 1/2%.   |
| <b>EQUITY-LINKED</b>              |                   |      |         |         |                |   |
| Bell Resources Financial Services | \$550             | 1997 | 5 1/4   | 100     | —              | Redeemable at 134.75 in 1993 to yield 10%. Convertible into shares of the Broker 181 Pfy at Aus\$12.35 per share and at Aus\$12.81 per dollar. Fees 2 1/2%.   |
| Bridgestone                       | \$100             | 1992 | 3 1/4   | 100     | —              | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1.444 yen per share and at 145.10 yen per dollar. Fees 2 1/2%.   |
| Hiroshi Matsui                    | \$ 70             | 2003 | 1 1/4   | 100     | —              | Semiannually. Callable at 103 in 1993. Convertible at 2.951 yen per share and at 144.50 yen per dollar. Fees 2 1/2%.  |
| Hokkai Can                        | \$ 80             | 1992 | open    | 100     | —              | Coupon indicated at 3 1/2%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium. Fees 2 1/2%. Terms to be set Oct. 21.                                     |
| Intrac                            | \$100             | 1992 | open    | 100     | —              | Coupon indicated at 3 1/2%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium. Fees 2 1/2%. Terms to be set Oct. 19.                                     |
| Kato Teiko Electric Railway       | \$100             | 1992 | open    | 100     | —              | Coupon indicated at 3 1/2%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium. Fees 2 1/2%. Terms to be set Oct. 21.                                     |
| Korabel Company                   | \$ 50             | 1992 | 3 1/4   | 100     | —              | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 3.500 yen per share and at 145.10 yen per dollar. Fees 2 1/2%.   |
| Martell                           | \$ 70             | 1992 | 3 1/4   | 100     | —              | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1.171 yen per share and at 145.10 yen per dollar. Fees 2 1/2%.   |
| Mitsuyoshi                        | \$ 30             | 1992 | open    | 100     | —              | Coupon indicated at 3 1/2%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium. Fees 2 1/2%. Terms to be set Oct. 22.                                     |
| Nishin Oil Mills                  | \$ 70             | 1992 | 3 1/4   | 100     | —              | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 995 yen per share and at 143.70 yen per dollar. Fees 2 1/2%.   |
| Pinnacle West Capital             | \$ 75             | 2002 | 10      | 100     | 98.50          | Callable at 103 in 1990. Convertible into Arizona Public Services Co. shares at \$34.94 per share. Fees 2 1/2%.   |
| Sains Transportation              | \$ 70             | 1992 | 3 1/4   | 100     | —              | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 2.308 yen per share and at 144.50 yen per dollar. Fees 2 1/2%.   |
| Toko-Q                            | \$100             | 1992 | 3 1/4   | 100     | —              | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 3.885 yen per share and at 144.50 yen per dollar. Fees 2 1/2%.   |
| Avis                              | \$ 50             | 2002 | open    | 100     | 100.50         | Coupon indicated at 4 1/4 to 5%. Redeemable to yield 9 to 10 1/2%. Callable at 101 in 1992. Convertible into Avis Europe PLC shares at 447 pence per share, a 15.26% premium. Fees 2 1/2%. Terms to be set Oct. 23. |
| Bell Resources Financial Services | \$ 50             | 1997 | 4 1/4   | 100     | —              | Redeemable at 125.318 in 1992 to yield 10.48%. Convertible into shares of the Broker 181 Pfy at Aus\$12.35 per share and at Aus\$12.81 per dollar. Fees 2 1/2%.   |
| Mayne Nickless Finance            | \$ 40             | 1994 | 7       | 100     | 99.25          | Callable at 101 in 1992. Convertible at Aus\$1 per share and at Aus\$2.28 per pound. Fees 2 1/2%.   |
| Bell Resources Financial Services | Aus\$ 200         | 1997 | 7 1/4   | 100     | —              | Redeemable at 120.872 in 1992 to yield 12.55%. Convertible into shares of the Broker 181 Pfy at Aus\$12.43 per share. Fees 2 1/2%.  |

## U.S. Stocks Have Yet to Crest, Elliott Wave Theorist Says

Robert R. Prechter has earned a reputation as one of the most accurate stock market forecasters in the United States, having correctly predicted almost every major turn in stock prices since the bull market began in August 1982. Ironically, some critics say Mr. Prechter's record for accuracy is partly responsible for the market's current woes. After he warned subscribers to his newsletter, *The Elliott Wave Theorist*, that the market was ripe for a major correction, the Dow Jones Industrial Average dropped 91 points on Oct. 6. He spoke with John Meehan, editor of the *IHT's* Personal Investing section, about the market's recent downturn and about his devotion to the Elliott Wave Principle. This theory, named after Ralph N. Elliott, the accountant who devised the principle in the wake of the 1929 stock market crash, holds that the market moves up and down in predictable, recurring waves.

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### MONDAY Q&A

have seen this month trying to tell us that the bull market is over?  
A. Not in my opinion.

Q. Can you define the Elliott wave theory?  
A. The wave principle is simply a detailed description of price and volume patterns that recur in the market. Elliott did his research empirically. He studied the price charts of stocks and commodities over varying time periods, some very short, hour-long periods, as well as daily and monthly charts. He soon realized that there are a limited number of patterns and that each displays certain characteristics internally and also indicate which patterns follow. From this method, he developed an objective approach to the market.

Q. Are you saying that past is prologue?  
A. Yes, the basis of market movements is mood changes, and the fundamental nature of crowds doesn't change. It goes back and forth between optimism and pessimism, always from one extreme to the other.

Q. You had been bullish until earlier this month when you warned your subscribers

that the failure of the Dow to break through 2,640 meant that it would retreat to around 2,300. What made you change your mind?  
A. It wasn't just one thing. There are four indicators that are pretty good predictors: price patterns, which under the wave principle take various forms and shapes; time cycles that occur with some regularity between the tops and bottoms of markets; market movements, namely the speed and breadth of price movements; and investor psychology. The 160-point rally that began Sept. 22 and took the Dow to 2,640 displayed the same technical characteristics in terms of investor psychology and price momentum that in the past have been associated with a correction.

Q. Since market psychology is so important to your forecasting method, what can you say about the market's current mood and what does this mean for stock prices?  
A. The market was complacent and optimistic coming into the Oct. 2 peak. But the big declines, finally in the past couple of days, have begun to instill some fear among investors. This is an initial hint that the market is closer to its bottom than to its top. People who are optimistic already have their money in the market and vice versa near the bottom.

Q. Does this mean this latest correction is just about over?  
A. Let's say I believe most of the price

damage is over. Markets rarely turn on a dime and go straight up. They usually spend some time at the lows. Time may have to pass before another rally. This is an interim period that is likely to end sometime in the fourth quarter.

Q. I gather that you may be changing your opinion about the stock market. Do you believe you will be telling your subscribers in the November issue of your newsletter to get back into the market?  
A. Well, let's just say I'm not prohibited from sending out a bulletin before November.

Q. Once the market is over this rough period, what is your long-term forecast?  
A. I'm still very bullish looking over the next 14 months. I believe the Dow could reach 3,600 to 3,700 before this bull market is over. I've been saying this will happen before the end of 1988.

Q. What about after 1988? In the past you have warned of a devastating stock market correction and an economic depression. Do you still believe this?  
A. After 1988, I think we'll see the biggest market decline in 60 years. Usually depressions follow. But that's just one person's view. No one has a road map to the future. Being a market analyst is a lot like batting in baseball; it's the percentage of hits you get that make you good.

## MARKETS: Investors Take Their Own Steps to Reduce U.S. Trade Deficit

(Continued from Page 1)

will be to intervene heavily to support the dollar. Both central banks are already trying to restrain expansion in domestic money supply, partly the result of earlier currency intervention.

Thus, dealers anticipate that speculators this week will turn their attention to the foreign exchange market. The comment from U.S. Treasury Secretary James A. Baker 3d last week that there could possibly be some lowering of the dollar's trading range is expected to be tested in the currency markets this week.

The question then is whether the central banks simply widen the target range as hinted by Mr. Baker, or whether the market forces an admission that the agreement to stabilize currencies really lacks substance.

At stake is whether the dollar is gently managed lower or whether it heads for a "hard landing" — the disorderly decline triggering a world recession that policy makers have been seeking to avoid since the dollar began its decline in 1985.

Mr. de Vries does not dispute claims that it may make little difference whether the United States exports goods and services to balance its trade or whether it finances its trade deficit by selling stocks,

### Largest Corrections of Postwar Period

Following are the 10 biggest percent corrections of the Dow Jones Industrial average since the end of World War II.

| Date                         | Beginning Price | End Price | Percent Change |
|------------------------------|-----------------|-----------|----------------|
| Dec. 3, 1956-May 26, 1970    | 985.20          | 637.15    | -35.94%        |
| March 13-Oct. 4, 1974        | 891.57          | 584.55    | -34.44         |
| Dec. 13, 1961-June 26, 1962  | 734.90          | 535.75    | -27.10         |
| Sept. 21, 1976-Feb. 28, 1978 | 1,014.78        | 742.11    | -26.67         |
| Feb. 9-Oct. 7, 1966          | 995.14          | 744.31    | -25.21         |
| April 27, 1981-Aug. 12, 1982 | 1,024.04        | 776.91    | -24.13         |
| May 29-Oct. 9, 1948          | 212.50          | 163.12    | -23.24         |
| Oct. 26-Dec. 5, 1973         | 987.05          | 788.30    | -20.14         |
| July 12-Oct. 22, 1957        | 520.76          | 419.78    | -19.39         |
| Jan. 11-Aug. 22, 1973        | 1,051.89        | 851.89    | -19.00         |

\*Includes corrections in which the average dropped more than 10 percent and then rose as much or more.

Source: Salomon Brothers Inc.

and real estate to foreign investors.

What counts, he said, in an interview, is that financial markets — which one way or another must finance the deficit — have seized on the trade imbalance as the fountainhead of instability and are demanding an adjustment. Since politicians are not providing that, the market is — by pushing up interest

rates and thereby slowing the domestic demand that is helping create the trade imbalance.

The market, he said, "sees better than politicians" that February's Louvre accord to stabilize exchange rates "was premature" — that it was intended to work so long as the promised fundamental policy changes were made and they have not been.

## U.S. Taking Part In Argentina Loan

Compiled by Our Staff From Dispatches

WASHINGTON — The Treasury Department has announced that the United States will take part in providing a \$500 million short-term loan to Argentina.

A spokesman for the Treasury said Friday that the U.S. share of the loan was between \$200 million and \$250 million.

Last Wednesday, Argentina froze wages and prices as part of its effort to control inflation and promote expansion. (AP, Reuters)

### Planting Time

The harvest moon has always presided over smooth sailing sales in the marketplace — people sensing a time of transition. Professionals do much of their shopping for tomorrow's leaders during these hazy moonlit or 518 last autumn, for example, and now while it roams again from 562 to prepare for a drive which says it will plant money on the public pull it out, write, phone or telefax for complimentary reports.

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## STOCKS: Baker Plays Down Plunge and Kaufman Predicts a 'Steadying'

(Continued from Page 1)

York Times story on Sunday that "posed a senior administration official as saying the United States is allowing the dollar to decline against the Deutsche mark."

The Treasury secretary insisted that the administration would not change its exchange-rate policy "without first making sure at least that we notified and discussed it with our trading partners," as required by the Louvre agreement on

currency stability reached in February among Western industrial powers.

Then he added, in words that appeared aimed at the governments in Bonn and Tokyo:

"On the other hand, we will not sit back in this country and watch surplus countries jack up their interest rates and squeeze growth worldwide on the expectation that the United States somehow will follow by raising its interest rates."

Mr. Baker made similar comments Saturday in an interview on Cable News Network. He had noted that the rise in German interest rates could slow the economies of both countries and that they indirectly have been contributing to the falling stock prices on Wall Street.

Mr. Baker, in both interviews, chose his words with great caution and did not specifically mention the dollar.

The New York Times said that

analysts and another senior administration official, who declined to be named, said Mr. Baker's remarks on Saturday meant that the administration and the Federal Reserve Board would not interfere if market pressures start pushing the dollar down somewhat against the mark.

He also said a decline of the dollar against the mark could be expected to mean a decline against many other currencies, too.

In Sunday trading in the Middle East, the dollar fell about 1.5 pence against the mark following the New York Times report, foreign exchange dealers said. In late afternoon the dollar was quoted at 1.7835 DM, after closing in New York on Friday at 1.7980 DM.

Mr. Baker said again that the administration will not force the dollar down, but is proposing to help reduce the federal budget deficit. "I think that the writing of these tax packages had a major effect in what's happened to the stock market over the past three or four days," he said, noting that corporate taxes would rise.

## France Tries To Reassure Shareholders

Agence France-Press

PARIS — The French government has appealed to novice shareholders to retain stocks and allow the government's huge privatization program to continue, despite plummeting share prices in Paris last week.

On the Paris Bourse, the widely watched CAC index dropped about 8 percent last week, to 369.6 from 402.9 the previous Friday.

The drop comes with the program of selling off 65 state-owned industrial and financial companies not yet half completed. The plan is the cornerstone of the conservative government's free-market policies.

Shares in recently privatized companies fell sharply. Some, such as Banque Paribas, dropped to their original selling price.

Finance Minister Edouard Balladur called Saturday on "the millions of French who have purchased stocks in privatized companies" not to be swayed by the price falls, noting they had invested for the longer term.

## Treasury Bonds

| Maturity | Class  | Ask    | Yield | Vol. |
|----------|--------|--------|-------|------|
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 5.50 |
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 9.20 |
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 9.20 |
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 9.20 |
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 9.20 |
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 9.20 |
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 9.20 |
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 9.20 |
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 9.20 |
| 31.7.89  | 98 1/2 | 98 1/2 | 9.12  | 9.20 |

Source: Salomon Inc.

## HOMES: California Firm Marries French, U.S. Styles

(Continued from first finance page)

strategy in Ile-de-France, where it now centers all its operations, is closely linked to the RER lines, the regional express train network. Ile-de-France comprises Paris and surrounding districts.

"Customers who accepted to live far from Paris 10-15 years ago," Mr. Nafilyan said, "today want individual homes a bit closer to Paris, even if population is denser and parcels are smaller."

In 1979, Kaufman began selling individual homes to institutional investors, mainly insurance companies, that had traditionally bought apartment houses in the center of Paris.

The first was insurance company La Concorde, which bought into a village of individual homes in Epone next to Mantes, west of Paris. Since 1979, 30 percent of indi-

vidual home sales have been to insurance companies.

Between 1984 and 1986 Kaufman & Broad-France's annual earnings rose from \$5.8 million to \$16.8 million. During this period, the company bought B&S Service, a builder of entry-level homes, and began constructing apartments, offices and senior citizens homes.

To run these operations, it created a new division, Kaufman & Broad Development, which is headed by Henri Caro, formerly vice president of Bouygues' real estate arm.

Financial risk is low in these ventures since Kaufman purchases land on option, and sells the office or apartment buildings to investors before beginning construction.

Kaufman is currently building 113,000 square meters of office space for investors.

Upscale home building is still Kaufman's main activity, with profit of \$8.3 million in 1986 on revenue of \$90 million. B&S Service reported profit of \$5 million on \$66 million revenue; office and apartment building produced profit of \$2.8 million on revenue of \$15 million, and retirement homes, \$700,000 profit on revenue of \$3 million.

U.S. marketing strategy in France's construction industry is now being successfully adapted by local companies, who have never had the backing or financial resources of a California-based parent company.

"I think marketing is becoming universal," Mr. Caro said. "Perhaps Americans had an advantage 20 years ago. There are fewer differences today."

## SOVIET: U.S. Assails Plan to Export VW-Powered Cars

(Continued from first finance page)

Aeronautics and Space Administration, the U.S. space agency.

Volkswagen is only one of more than 100 Western companies with whom the Soviets are discussing joint ventures in efforts to increase efficiency of the Soviet economy.

A half-dozen such ventures have already been concluded, including

one with Pizza Hut, a subsidiary of PepsiCo, which would operate four pizza establishments in Moscow.

The Soviets have also concluded joint ventures with Babcock PLC of Britain to manufacture industrial refrigeration equipment, financed in part by an Italian bank syndicate; Sandvik AB, a Swedish company to produce tung-

sten carbide cutting tools in Estonia; and Finnair to renovate the Berlin hotel in Moscow.

"The Soviets are using joint ventures as pawns, in effect saying, look what foreigners together with the Soviet people can do — why can't we do it ourselves," said John I. Huns, an international lawyer who advises U.S. multinational companies on relations with the Soviets.

"The ultimate objective is to make Soviet manufactured goods more saleable in the West," he said.

One of the Soviet Union's immediate objectives, American officials said, is to obtain most-favored-nation status.

The U.S. government estimates that Soviet exports to the United States would grow by a relatively modest \$20 million to \$100 million annually if it were granted such status, according to Franklin J. Vargo, deputy assistant secretary of commerce for Europe.

Over the past decade, U.S. trade with the Soviet Union has been relatively stagnant.

U.S. exports have averaged \$2.5 billion per year, mostly in agricultural products, and imports from the Soviet Union have averaged about \$400 million.

## WIN \$\* MILLIONS!

### Strike it rich in Canada's Favorite Lottery. You pick your own numbers playing Lotto 6/49

That's right... you can win millions by picking your own numbers playing Lotto 6/49—Canada's most popular Government Lottery. In fact, last year Lotto 6/49 paid out \$354,736,589.00 in ALL CASH PRIZES. And it's all free of Canadian taxes. There are two draws each week for a grand prize guaranteed to be not less than \$1,000,000.00 with many millions more in secondary prizes. Grand prizes often run into the millions and have been as high as \$13,890,588.80. Imagine what you could do with that much cash! This is your opportunity to find out because now you can play the lottery that's making so many millionaires in Canada.

### WHAT IS LOTTO 6/49?

Lotto 6/49 is the official Canadian version of Lotto—the world's most popular form of lottery. It's the lottery in which you pick your own numbers and it's called "6/49" because you select any 6 of 49 possible numbers from 1 to 49. Your numbers are entered in the Lotto 6/49 computer system and if they match the six winning numbers chosen in the draw—you win the grand prize. Or if you have only 3, 4 or 5 numbers correct you win one of thousands of secondary prizes available.

### HOW CAN I PLAY?

Complete the attached order form and send it to Canadian Overseas Marketing along with the necessary payment. We will enter your numbers for the specified length of your subscription. You may select from 1 to 6 games for 10, 26, or 52 weeks. Each game gives you

another chance at the grand prize for every draw in which you are entered. You receive a "Confirmation of Entry" by return mail acknowledging your order and indicating the numbers you have selected as well as the draws in which they are entered.

### HOW DO I KNOW WHEN I WIN?

You will be notified immediately when you win a prize of \$1,000.00 or more. Also, a complete list of all winning numbers will be sent to you after every tenth draw so that you can check along the way to see how you are doing. At the expiration of your subscription you will be sent a final statement of your winnings. All prize money will be converted to any currency you wish and confidentially forwarded to you anywhere in the world. So mail your order today—the next big winner could be you.

\* Canadian Overseas Marketing is a private company. The prices quoted herein include handling and mailing costs.

### PRIZE BREAKDOWN (Actual Sample of One Draw)

| PRIZES | NO. OF PRIZES</ |
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OTC Consolidated trading for week ended Friday.

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Figures as of close of trading Friday  
Oct. 16

NEW YORK LAB. 1

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*[The page contains faint, illegible markings and symbols.]*

Figures as of close of trading Friday.

2

This image shows a blank, aged, cream-colored page, likely an endpaper or flyleaf of a book. The paper has a slightly textured appearance with some minor discoloration and a small dark stain near the bottom center. The left edge of the page shows the binding, with visible stitching or staples. The overall tone is warm and vintage.




*OTC Consolidated trading for week ended Friday.*

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| Denmark  | D.Kr.    | 2,500   | 1,400   | 770     |
| Finland  | F.M.     | 1,730   | 950     | 530     |
| France   | F.F.     | 1,500   | 820     | 450     |
| Germany*   | D.M.     | 580     | 320     | 175     |
| Great Britain  | £        | 130     | 72      | 40      |
| Greece   | Dr.      | 22,000  | 12,000  | 6,600   |
| Ireland  | £Ir.     | 150     | 82      | 45      |
| Italy  | Lire     | 380,000 | 210,000 | 115,000 |
| Luxembourg   | L.F.     | 11,200  | 6,300   | 3,400   |
| Netherlands  | Fl.      | 430     | 240     | 130     |
| Norway   | N.Kr.    | 1,820   | 990     | 540     |
| Portugal   | Esc.     | 22,000  | 12,000  | 6,600   |
| Spain*   | Ptas.    | 29,000  | 16,000  | 8,800   |
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| Switzerland  | S.Fr.    | 510     | 280     | 154     |
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## SPORTS

## SPORTS BRIEFS

## Tanzanian Is Winner of Beijing Marathon

BEIJING (UPI) — Juma Ikangaa of Tanzania broke away in the final stages to win Sunday's seventh annual Beijing Marathon. Ikangaa, 27, finished the 26-mile, 385-yard (42.19-kilometer) course in 2 hours, 12 minutes and 19 seconds for his first victory in the race through the center of the Chinese capital. Ethiopian Negasi Dube was second in 2:12:49 and Brad Camp of Australia third in 2:12:52.

It was the first time since Hideki Kita's 1984 victory that Japanese runners have not finished one-two, but they still hold five of the event's top 10 clockings.

## Ioka Titlist of WBC's New Strawweight Class

OSAKA, Japan (AP) — Hiroki Ioka of Japan won a unanimous decision over Mai Thonburirarm of Thailand here Sunday to become the first champion of the World Boxing Council's new strawweight class. There were no knockdowns in the 12-round fight.

The WBC set up the 47.6-kilogram (104.7-pound) division last month and ordered Mai and Ioka to fight for the title. Ioka, at 18 the youngest Japanese boxer ever to win a world crown, will now defend against South Korean Lee Kyung-yung.

## Pate Leads O'Meara by 1 Shot in Disney Golf

LAKE BUENA VISTA, Florida (UPI) — Steve Pate, seeking his second victory in three weeks, moved into a one-shot lead after Saturday's third round of the Walt Disney World Classic golf tournament.

Pate, who won the Southwest Classic earlier this month, had two front-nine eagles to a 65 and a total of 17-under-par 199, one shot ahead of Mark O'Meara, the leader through the first two rounds. O'Meara had a 69 Saturday.

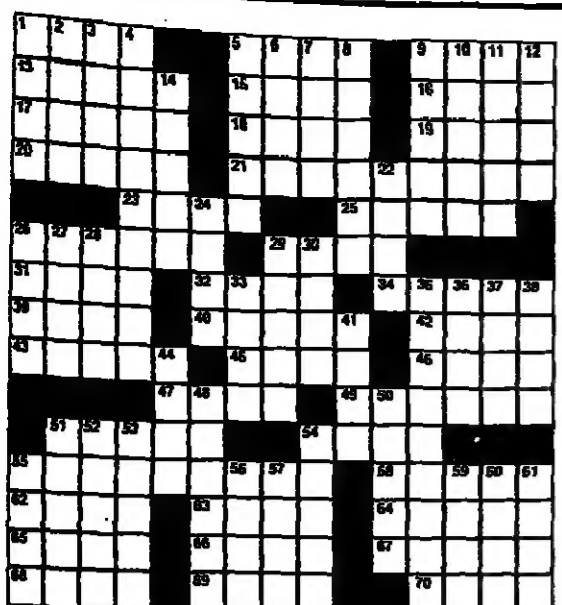
Morris Hatakey, Andrew Magee and David Frost were at 14-under, while Mark McCumber, Mac O'Grady and Loren Roberts were another stroke back.

## Solution to Friday's Puzzle

ACROSS  
1 Oscar in "The Odd Couple"  
5 Counterfeit  
9 Take back  
13 Radioactivity measure  
15 Money in Milan  
16 Ohio county  
17 Fla. city  
18 Slightly open  
19 Adjective for the Sixties  
20 Archer William and son  
21 Run holders  
23 Longbow material  
25 Hangs in there  
26 Divine revelation  
29 "High Noon" climax  
31 Survey  
32 Neck of land  
34 Say  
39 Garb for Jaffe  
40 104's grist  
42 A piece of cake  
43 Thins  
45 Birthday secret  
46 Partake of food  
47 Colonial patriot  
49 Causes confusion  
51 Korean shoemaking center

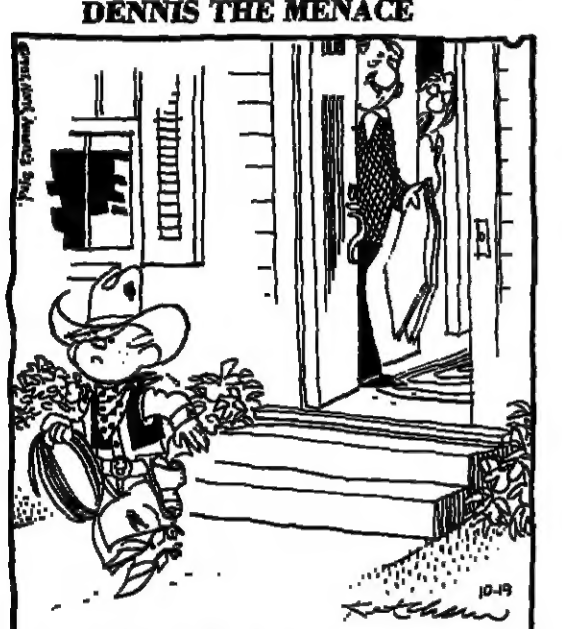
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1 Dundee  
2 Father of Time  
3 Type of presentation  
4 Cop's cudgel  
5 Thick cuts  
6 Son, in Cordoba  
7 Bedouin tribesman  
8 Cat's-eye or agate  
9 Military vehicles  
10 Glenn's lap  
11 N.F.L. team  
12 Billfold item  
14 Cavalry holder  
22 Korean border river  
24 Cardinal point

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"I DON'T CARE IF HIS DAD HAS A SORE BACK! I'M NOT GOING TO BE ANYBODY'S HORSE!"

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four jumbles, one letter to each square, to form four ordinary words.

ROVYI

PIDEB

HUPNAC

JUDSAT

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer here: A

Friday's Jumble: ARBOR JUMPY BEFALL FLOVER

Answer: The one thing really a man needs after he has all the money he needs—MORE

(Answers tomorrow)

WEATHER

EUROPE HIGH LOW ASIA HIGH LOW

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Belgium 14 16 18 14 16 18

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Canada 14 16 18 14 16 18

China 14 16 18 14 16 18

France 14 16 18 14 16 18

Germany 14 16 18 14 16 18

India 14 16 18 14 16 18

Japan 14 16 18 14 16 18

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Other areas: 14 16 18 14 16 18

MOON'S FORECAST — CHANNEL: High, FRANKFURT: Fog, Temp. 14-16 (57-61); LOW: Fog, Temp. 14-16 (57-61); MIDD: Cloudy, Temp. 14-16 (57-61); NEW YORK: Fog, Temp. 14-16 (57-61); PARIS: Cloudy, Temp. 14-16 (57-61); ROME: Fog, Temp. 14-16 (57-61); TEL AVIV: Fog, Temp. 14-16 (57-61); TOKYO: Fog, Temp. 14-16 (57-61); WASHINGTON: Fog, Temp. 14-16 (57-61); ZURICH: Fog, Temp. 14-16 (57-61).

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## VANTAGE POINT/Michael Janofsky

## End of the Strike, New Phase of the Battle

New York Times Service

NEW YORK — The end of the players' strike against the National Football League owners last week was the beginning of a new phase of the labor dispute, one in which the pressures may intensify and the perception of management as the winner may change.

By filing an anti-trust lawsuit against the owners, in concert with sending the players back to work, the union has raised what it considers a hammer that could ultimately smash the system it was unable to change during the last six months at the bargaining table.

"I knew, when everything else failed, we had to take a different course of action," Gene Upshaw, the union's executive director, said Saturday, discussing the suit. "Now, players from all over are calling to say they support what we've done."

How did the dispute reach this point? Why was so little accomplished in bargaining before and during the 24-day strike? Why are some owners now expressing serious concern over what happened, despite the fact they still embrace their initial positions?

The answers stem from one basic assumption: The union's bargaining proposals were so repugnant to the owners that they stood firm, united in their resolve not to give in. Conversely, 90 percent of the union went on strike, but the defections grew almost daily.

The union wanted a system that would enable players to be free agents at least once in their careers. The owners agreed to liberalize the existing system, in which teams maintain first-refusal rights and get compensation for losing free agents. The union wanted a pension plan in which the owners are required to contribute a minimum annual amount and reinvest excess profits. The owners would only guarantee the level of benefits. The union wanted a three-year agreement. Once the strike started, the owners wanted a six-year agreement.

Now the league is confronted by another lawsuit, just over a year after a federal jury

found it to be a monopoly in the case involving the U.S. Football League. The union is claiming that, in the absence of a collective bargaining agreement, players whose contracts expire Feb. 1 — almost 300 of them — can become free agents. Players on strike through Thursday who were refused pay for last week, and the opportunity to play Sunday, are angry.

And owners are worried.

The union has raised what it considers a hammer that could ultimately smash the system it was unable to change during the last six months at the bargaining table.

"We could eventually be big losers," Pat Bowlen, the owner of the Denver Broncos, said recently. "As I see it, there were no winners, and who ultimately wins remains to be seen. I hope that when things cool off some approach will be made to negotiate again. But I'm very concerned that it's not going to happen."

Other owners have expressed concern over the latest developments, including one who urged the management council to take a more conciliatory attitude into what became the last round of negotiations last week.

In the view of this owner, who asked not to be identified, management had the advantage in bargaining until then. Yet it was lost, he said, when league negotiators rebuffed several new ideas put forth by the union, including one that would have created a system of free agency.

"I was hoping there would have been more of an exchange of ideas," the owner said. "We did just the opposite."

At that point the talks broke off, and all subsequent efforts were directed toward reaching a back-to-work agreement. But when that failed as well, Upshaw sent the players back without an agreement and the union proceeded with its suit.

At the same time, the owners infuriated players by ruling that those who hadn't reported by 1 P.M. Wednesday would not be reinstated until after the weekend's games — and by raising the roster limit to 85 players, 40 players more than usual, from Monday through 1 P.M. next Saturday. While that will give coaches a chance to choose from among the regulars and those who played during the 24-day strike, it also created the possibility of confrontations between them.

If some owners are worried about the league defending itself in yet another anti-trust case, Jack Donlan, executive director of the management council, took a more moderate view. He said he had expected the union to file suit because the owners' refusal to grant free agency or change other aspects of the system left union leaders no alternative.

Even so, he called the suit "almost a peripheral issue," and predicted that the dispute would ultimately be resolved at the bargaining table.

"When you looked at their game plan, you knew they had no intention of bargaining until after the expiration of the contract," he said the other day, referring to the Aug. 31 expiration date. "Then, they were going to see if they could get what they wanted, and if they couldn't, they were going to the courtroom to get it."

He was right about one thing. The union felt it had no alternative.

"The owners showed from the beginning they will refuse to change the system, that they will never allow the players to be free no matter how long they played," said Dick Berthelsen, the union's general counsel. "Since they kept saying 'never,' the only way we could change it is by going to court."

And now that they have, union leaders may be in less of a hurry to get back to the table.

## WORLD STOCKS IN REVIEW / Via Agence France-Presse

## Amsterdam

Amsterdam suffered substantial losses last week on disappointing U.S. trade figures and a general rise in world interest rates.

The ANP-CBS general index closed at 290.7, down from 304.8 the previous Friday. On Thursday, the index plunged 11.6, its biggest one-day drop since it started in 1970.

Volume for the week jumped to 7.2 billion guilders, from 4.92 billion the previous week.

Amsterdam stockbrokers Kempen & Co. said the outlook for stock prices is poor, especially since interest rates are unlikely to turn down soon.

## Frankfurt

The Frankfurt stock market, hit the previous week by the government's proposed withholding tax on investment income, fell further last week.

The Commerzbank index lost 40 points to close at 1,896.6 on Friday, against 1,936.6 the previous Friday.

Negative factors included the announcement Wednesday by the Bundesbank of an increase from 3.75 percent to 3.85 percent for securities repurchase agreements, the dollar's weakness and rumors that the central bank might raise the discount rate at its next meeting.

Volume on the eight West German stock markets was 15.18 billion DM for the week, against 15.04 billion the previous week.

Antos were irregular. BMW dropped by 4 Deutsche marks, while Daimler was up by 26 and VW by 10.50. In chemicals, BASF dropped 3.70 DM and Bayer 6.50.

## Hong Kong

Panic selling sent Hong Kong's Hang Seng Average plunging Friday to finish at 3,783.20 points, down 99.22 on the previous week.

Many dealers attributed the loss to a long overdue technical correction. Wall Street's problems added to the confusion.

Top local property company Hongkong Land bucked the trend Friday to score a handsome gain of 90 Hong Kong cents, on renewed rumors that Jardine Matheson, its associate, was about to sell its 25 percent stake in Hongkong Land.

Cathay Pacific closed at 8.50, down 40 cents, Cheung Kong finished at 12.50, down 60 cents, and China Light at 27.40, down 180 cents.

## London

The wider-than-expected U.S. trade deficit for August, which hit Wall Street and the dollar, prompted widespread losses last week on the London Stock Exchange.

The Financial Times industrial share index ended 45.3 points down on the week, at 1,812.9. Trading was suspended on Friday after bad weather in southern England caused widespread power failures.

Losses were pared for equities by good economic indicators on producer prices, unemployment and average earnings, and by comments by the chancellor of the Exchequer, Nigel Lawson, excluding an early rise in British interest rates.

All sectors were affected, notably pharmaceuticals, after disappointing annual results from Glaxo, Midland, Royal Bank of Scotland, Standard Chartered and Kleinwort Benson, named on the Bank of England's undertaking to protect British banks from foreign takeovers.

## Milan

The recent upturn in Milan stocks was halted last week by the drop on Wall Street, but purchasing interest Tuesday and Thursday continued the fall over the week to 0.44 percent.

The Milan Stock Exchange Index closed at 910 points, after the previous week's 914.

The other big factor in market sentiment was the future privatization of merchant bank Mediobanca, in which the private and public sectors will each with 20 percent with the rest being sold to small investors at the market rate.

Mediobanca shares lost 4.70 percent after late profit-taking, but two of the bank's large shareholders rose, Banco Roma by 2.57 percent and Comit by 1.66 percent.

## Paris

Paris stock prices, buffeted by higher interest rates, poor French and U.S. economic indexes and Wall Street's plunge, dropped 8 percent last week, one of the Bourse's worst weeks in five years.

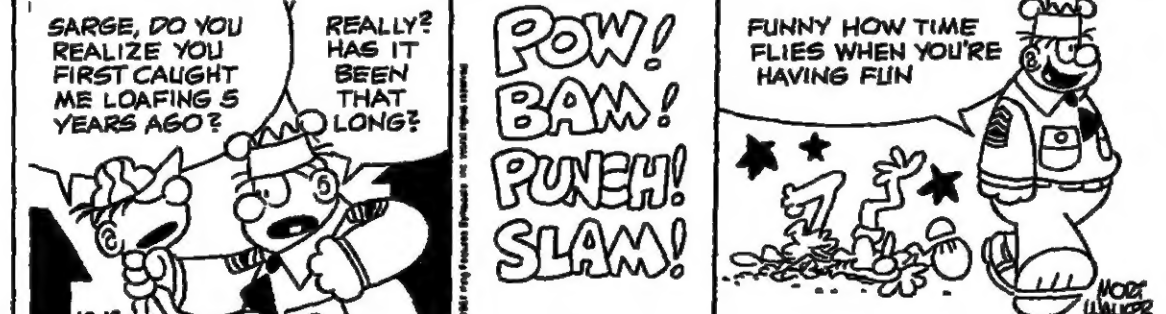
## PEANUTS



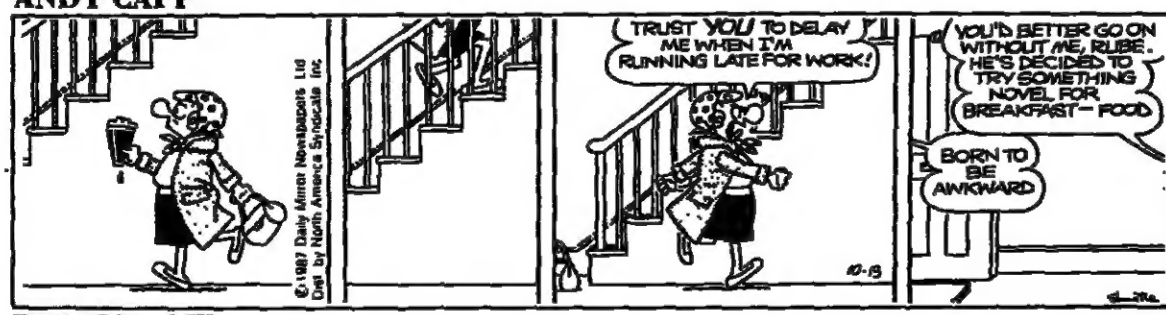
## BLONDIE



## BEETLE BAILEY



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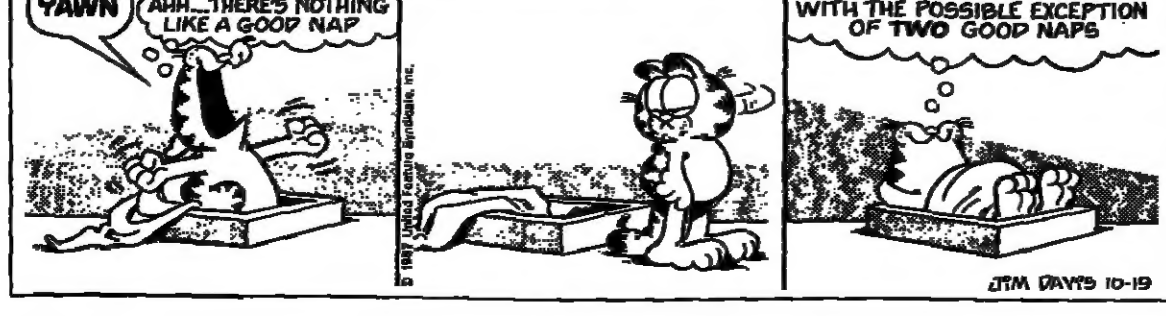
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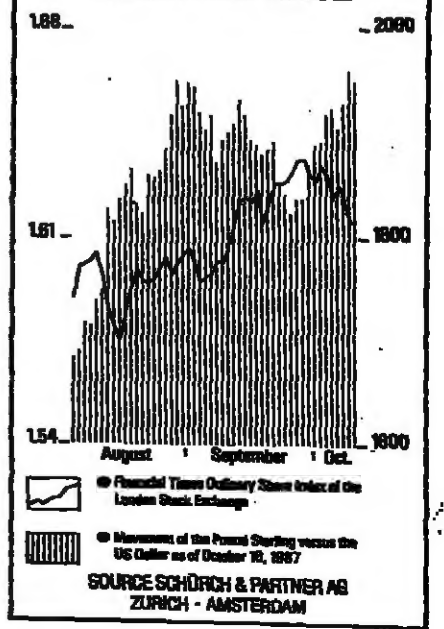
## REX MORGAN



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## COMBINED CURRENCY STOCK INDEX GRAPH



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